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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-K**

(Mark One)

**ANNUAL REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended December 31, 2001**

**TRANSITION REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File Number 0-28104

**JAKKS PACIFIC, INC.**

(Name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

95-4527222  
(I.R.S. Employer  
Identification No.)

22619 Pacific Coast Highway  
Malibu, California  
(Address of principal executive offices)

90265  
(Zip Code)

Registrant's telephone number, including area code: (310) 456-7799

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class

Name of each exchange  
on which registered

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None

**Securities registered pursuant to Section 12(g) of the Exchange Act:**

Title of Class

**Common Stock, \$.001 par value**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period as the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting and non-voting common equity (the only such common equity being Common Stock, \$.001 par value) held by non-affiliates of the registrant (computed by reference to the closing sale price of the Common Stock on March 28, 2002) is \$442,228,560.

The number of shares outstanding of the registrant's Common Stock, \$.001 par value (being the only class of its common stock) is 19,668,787 (as of March 29, 2002).

**Documents Incorporated by Reference**

None.

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**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. For example, statements included in this report regarding our financial position, business strategy and other plans and objectives for future operations, and assumptions and predictions about future product demand, supply, manufacturing, costs, marketing and pricing factors are all forward-looking statements. When we use words like "intend," "anticipate," "believe," "estimate," "plan" or "expect," we are making forward-looking statements. We believe that the assumptions and expectations reflected in such forward-looking statements are reasonable, based on information available to us on the date hereof, but we cannot assure you that these assumptions and expectations will prove to have been correct or that we will take any action that we may presently be planning. We have disclosed certain important factors that could cause our actual results to differ materially from our current expectations elsewhere in this report. You should understand that forward-looking statements made in this report are necessarily qualified by these factors. We are not undertaking to publicly update or revise any forward-looking statement if we obtain new information or upon the occurrence of future events or otherwise.

## Item 1. Business

In this report, “JAKKS,” the “Company,” “we,” “us” and “our” refer to JAKKS Pacific, Inc. and its subsidiaries.

### Company Overview

JAKKS, a Delaware corporation, is a multi-line, multi-brand toy company that designs, develops, produces and markets toys and related products. Our principal products are (1) action figures and accessories featuring licensed characters, principally from the *World Wrestling Federation*, (2) *Flying Colors* molded plastic craft and activity sets, compounds playsets, girls accessory kits and lunch boxes, (3) Wheels division products, including *Road Champs* die-cast collectible and toy vehicles and *Remco* toy vehicles and role-play toys and accessories, (4) Pentech writing instruments and activity products, (5) *Child Guidance* infant and pre-school electronic toys, plush toys, toy foam puzzle mats and blocks, activity sets and outdoor products and (6) fashion and mini dolls and related accessories. We focus our business on evergreen branded products that are less subject to market fads or trends and feature well-known brand names and simpler, lower-priced toys and accessories.

We formed our joint venture with THQ in June 1998 to develop, manufacture and market, under an exclusive license with World Wrestling Federation Entertainment, video games based on *World Wrestling Federation* characters and themes. The joint venture’s first products were released in November 1999.

We have been successful at acquiring and capitalizing on evergreen brands, which are well-recognized trademarks or corporate, trade or brand names, some with long product histories. We continually review the marketplace to identify and evaluate evergreen brands that, for various reasons, we believe have potential for significant growth. We seek to acquire or license these brands and revitalize them as needed by intensifying the marketing effort to restore and enhance consumer recognition and retailer interest. We reinforce brands by linking them with other evergreen brands on our products, adding to the branded product lines new items that we expect to enjoy greater popularity, eliminating products with fading popularity, adding new features and improving the functionality of products in the line. We also try to improve point-of-sale brand visibility through better shelf positioning and more eye-catching product packaging.

We license much of the intellectual property we use in our business. We license the *World Wrestling Federation* trademark, as well as numerous other trademarks, corporate, trade and brand names and logos, from third parties, including *Car and Driver*, *Nickelodeon*, *Rugrats*, *Blue’s Clues*, *Mickey Mouse*, *Barney*, *Sesame Street*, *Winnie the Pooh* and *Hello Kitty*. This enables us to use high-profile marks at a lower cost than that which we would incur if we purchased these marks or developed comparable marks on our own. By licensing marks, we have access to a far greater range of marks than those that would be available for purchase, and we maintain the flexibility to acquire newly-popular marks and to discontinue our use of marks whose popularity or value has faded. We also license technology produced by unaffiliated inventors and product developers to improve the design and functionality of our products. We believe that our experience in the toy industry, our flexibility and our recent success in developing and marketing products make us more attractive to toy inventors and developers.

Most of our current products are relatively simple and inexpensive toys and related products. We believe that these products have proven to have enduring appeal and are less subject to general economic conditions, toy product fads and trends, changes in retail distribution channels and other

factors. In addition, the simplicity of these products enables us to choose among a wider range of manufacturers and affords us greater flexibility in product design, pricing and marketing.

We sell our products through our in-house sales staff and independent sales representatives. Purchasers of our products include toy and mass-market retail chain stores, department stores, drug and grocery store chains, club stores, toy specialty stores and wholesalers. The *Road Champs*, *Flying Colors* and *Pentech* products are also sold to smaller hobby shops, specialty retailers and corporate accounts, among others. Our five largest customers are Target, Kmart, Toys 'R Us, Wal-Mart, and Kay Bee Toys, which accounted for approximately 54.7% of our net sales in 2001. No other customers accounted for more than 8% of our net sales in 2001. We also sell through e-commerce sites, including Toysrus.com.

## **Recent Development**

On March 11, 2002, we acquired a controlling interest in Toymax International, Inc. (Toymax), a developer and marketer of toys and related products, including brand name products such as Laser Challenge, Creepy Crawlers, Fun noodle and Go Fly a Kite. These product lines further diversify as well as complement our own, and we expect to benefit from efficiencies through combining our operations. We anticipate acquiring the remainder of Toymax in a merger transaction, subject to certain conditions, including the approval of its stockholders.

## **Industry Overview**

According to the Toy Industry Association, Inc. (the TIA), the leading industry trade group, total retail sales of toys, excluding video games, in the U.S., were approximately \$25.0 billion in 2001. According to the TIA, the United States is the world's largest toy market, followed by Japan and Western Europe. Sales by U.S. toy manufacturers to non-U.S. customers exceeded \$5.0 billion in 2001. We believe the two largest U.S. toy companies, Mattel and Hasbro, collectively hold a dominant share of the domestic non-video toy market. In addition, hundreds of smaller companies compete in the design and development of new toys, the procurement of character and product licenses, and the improvement and expansion of previously-introduced products and product lines. In the video game segment, total retail sales of video game software were approximately \$9.4 billion in 2001.

Over the past few years, the toy industry has experienced substantial consolidation among both toy companies and toy retailers. We believe that the ongoing consolidation of toy companies provides us with increased growth opportunities due to retailers' desire not to be entirely dependent on a few dominant toy companies. Retailer concentration also enables us to ship products, manage account relationships and track retail sales more effectively with a smaller staff.

## **Our Growth Strategy**

- ***Expand core products***

We manage our existing and new brands through strong product development initiatives, including introducing new products, modifying existing products and extending existing product lines. Our product designers strive to develop new products or product lines to offer added technological, aesthetic and functional improvements to our product lines. In 2001, we expanded the use of real-scan technology in our action toys, which results in higher quality and better likenesses of the characters and vehicles. In addition, we introduced action figures with significantly more points of articulation, and expanded our electronic recognition play sets.

- ***Enter new product categories***

We will continue to use our extensive experience in the toy and other industries to evaluate products and licenses in new product categories and to develop additional product lines. We have entered the plush toy category through the licensing of Pound Puppies as well as through the creation of our own Limbo Legs, and expanded into slumber bags through the licensing of this category from our current licensors, such as Nickelodeon.

- ***Continue to pursue strategic acquisitions***

Since our inception, we have successfully concluded and integrated six acquisitions. These include our *Road Champs*, *Remco*, *Child Guidance*, *Berk*, *Flying Colors* and *Pentech* products. We will continue focusing our acquisition strategy on businesses or brands which offer valuable trademarks or brands and have compatible product lines.

- ***Acquire additional character and product licenses***

We have acquired the rights to use many familiar corporate, trade and brand names and logos from third parties that we use with our primary trademarks and brands. Currently, we have license agreements with World Wrestling Federation Entertainment, Nickelodeon, Disney, Warner Bros., as well as with the licensors of the many popular licensed children's characters previously mentioned among others. We intend to continue to pursue new licenses from these entertainment and media companies and other licensors. We also intend to continue to purchase additional inventions and product concepts through our existing network of product developers.

- ***Expand international sales***

We believe that foreign markets, especially Europe, Australia, Canada and Latin America, offer us the opportunity for growth. We intend to expand our international sales by capitalizing on our experience and our relationships with foreign distributors and retailers. Our recent expansion efforts included entering into a distribution agreement with Funtastic Ltd., an Australia based toy distributor. In addition, we recently acquired Kidz Biz for their distribution channels in the United Kingdom and surrounding territories. We expect both initiatives to contribute to our international growth in 2002.

- ***Capitalize on our operating efficiencies***

We believe that our current infrastructure and low-overhead operating methods can accommodate significant growth without a proportionate increase in our operating and administrative expenses, thereby increasing our operating margins.

## **Products**

### ***World Wrestling Federation Action Figures and Accessories***

We have an extensive toy license with World Wrestling Federation Entertainment pursuant to which we have the exclusive right, until December 31, 2009, to develop and market a full line of toy products based on the popular *World Wrestling Federation* professional wrestlers throughout the world. These wrestlers perform throughout the year at live events that attract large crowds, many of which are broadcast on free and cable television, including pay-per-view specials. We launched this product line in 1996 with various series of six-inch articulated action figures that have movable body parts and feature real-life action sounds from our patented bone-crunching mechanism that allows the figures' "bones" to crack when they are bent. We continually expand and enhance this product line by using technology in the development and in the products themselves. The six-inch



figures currently make up a substantial portion of the overall *World Wrestling Federation* line, which has since grown to include many other new products including playsets using interactive technology. Our strategy has been to release new figures and accessories frequently to keep the line fresh and to retain the interest of the consumers.

### ***Flying Colors/Pentech Activity Sets, Compound Playsets, Writing Instruments and Lunch Boxes***

Through our acquisition of Flying Colors Toys we entered into the toy activity category with plastic molded activity cases containing a broad range of activities, such as make and paint your own characters, jewelry making, art studios, posters, puzzles and other projects. The cases, with molded and painted likenesses of popular characters, such as Nickelodeon's *Rugrats* and *Blue's Clues*, *Powerpuff Girls*, *Looney Tunes*, *Hello Kitty* and *Scooby Doo*, have immediate visual appeal. Using a related production technology, our lunch boxes complement this line with similarly-styled molded and painted likenesses featuring these and other popular characters. Through our acquisition of Pentech International in 2000, we expanded the other categories of products offered by *Flying Colors*, which now include stationery, back-to-school pens, pencils, markers and notebooks, party favors and compounds.

Our compounds represent another significant area of emphasis for *Flying Colors*. Launched under the *Blue's Clues* license, this line has expanded from play clay in a bucket to an entire *Blue's Clues* playset featuring book molds, extrusion and other devices. We are continuing to expand the compound area and have introduced a full line of innovative compounds under the Nickelodeon brand, including *Gooze*, *Zyrofoam* and *Gak Splat* among others.

### ***Wheels Division Products***

- *Road Champs die-cast collectible and toy vehicles*

The *Road Champs* product line consists of highly-detailed, die-cast replicas of new and classic cars, trucks, motorcycles, emergency vehicles and service vehicles, primarily in 1/43 scale (including police cars, fire trucks and ambulances), buses and aircraft (including propeller planes, jets and helicopters). Through licenses we produce replicas of well-known vehicles including those from *Ford*, *Chevrolet* and *Porsche*. We believe that these licenses increase the perceived value of the products and enhance their marketability. Under the terms of these licenses (many of which include automatic annual extensions without affirmative action taken by either party), we pay the licensor a royalty based on our sales of each product bearing such licensed name. While we are not required to pay any royalty on some of the products, the royalties on a majority of the products range from 1% to 9% of sales.

- *Extreme sports die-cast collectible and toy vehicles and action figures*

In 1999, we launched our extreme sports category with a new line of die-cast bicycles called BXS. These BMX-style bicycles feature removable and interchangeable parts for complete customization by users as well as working cranks. We have licensed the *Schwinn*, *GT* and *Haro* brand names, among others, as well as the names of some of the top riders, such as Dave Mirra and Ryan Nyquist, for use in connection with this product line.

We expanded our extreme sports offerings with the introduction of our MXS line of motorcycles with riders featuring "click n grip" functionality which allows the user to release the rider from the motorcycle seat and perform the signature moves of the sport's top riders. Other additions included off-road vehicles, personal water craft, surfboards and skateboards, all sold individually and with play sets and accessories.

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- *BattleBots and Junkyard Wars*

We introduced product lines featuring assembled and non-assembled vehicles and playsets, which create a do-it-yourself play pattern, based on the BattleBots and Junkyard Wars television shows.

- *Remco toy vehicles and role play*

Our Remco toy line includes toy vehicles, role play and other toys. Our toy vehicle line is comprised of a large assortment of rugged die-cast and plastic vehicles that range in size from 4 3/4 inch to big-wheeled 17 inch vehicles. The breadth of the line is extensive, with themes ranging from emergency, fire, farm and construction, to racing and jungle adventure.

We offer a variety of branded and non-branded role playsets in this new category under the *Remco* name. Themes include *Caterpillar* construction, *B.A.S.S. Masters* fishing, police, fire and *NASA*. Additionally, capitalizing on the popularity of *World Wrestling Federation*, we introduced a *World Wrestling Federation* role play product which will give children the opportunity to dress like and imagine being their favorite wrestling superstars.

### **Child Guidance**

- *Infant and pre-school toys*

Our line of pre-school electronic toys features products that enhance sensory stimulation and learning through play, while offering value to the trade as well as to the consumer. Our products are designed for children ages two and under. We have combined the fun of music, lights, motion and sound with the early introduction of numbers, letters, shape and color recognition, all at a value price. These products carry the Good Housekeeping Seal of Approval®. In 2001, we introduced a line of musical toys in conjunction with Baby Genius, the marketer of a popular line of music-oriented CDs and home videos whose aim is to stimulate the development of young children through music.

In addition to creating products internally, we often acquire products and concepts from numerous toy inventors with whom we have ongoing relationships. License agreements for products and concepts call for royalties ranging from 1% to 6% of net sales, and some may require minimum guarantees and advances. Both development of internally-created items and acquiring items are ongoing efforts. In either case, it may take as long as nine months for an item to reach the market. As part of an effort to keep the product line fresh and to extend the life of the item, we create new packaging, change sound chips and change product colors from time to time.

- *Plush toys*

We entered this category by licensing for reintroduction Pound Puppies and have since expanded our offerings with the internally developed Limbo Legs, a collection of 6 inch and 12 inch long-legged animals in a variety of colors and fabrics.

- *Foam puzzle mats and playsets*

The acquisition of Berk added the foam toy category to our business. We incorporated this new toy category into our Child Guidance product line, based on the demographics and target market for foam toy products. This line further expanded the breadth of our Child Guidance brand. The foam toy products include puzzle mats featuring licensed characters, such as *Winnie the Pooh*, *Blue's Clues*, *Barney*, *Teletubbies* and *Sesame Street*, among others, as well as letters of the alphabet and numbers. The inter-locking puzzle pieces can also be used to build houses and other

play areas. Other products include foam puzzles of the United States, foam vehicles and outdoor foam products.

### ***Fashion and Mini Dolls and Related Accessories***

We produce various proprietary and licensed fashion and mini dolls and accessories for children between the ages of three and 10. The proprietary product lines include 11 1/2 inch fashion dolls customized with high-fashion designs that correspond with particular holidays, events or themes, and fashion dolls based on children's classic fairy tales and holidays. We also produce licensed 15 1/2 inch dolls based on the fashion magazine *Elle*, and 11 1/2 inch dolls based on the feature films, *Charlie's Angels* and *Josie and the Pussycats*. These dolls feature our new patent-pending skeleton with more realistic features and movement. We also have an agreement with Disney Stores to manufacture a full line of dolls under private label which feature Disney Princesses and classic Disney characters.

Our in-house product developers originate the design and functionality of most of our fashion dolls. In many cases, they work with retailers and incorporate their input on doll characteristics, packaging and other design elements to create exclusive product lines for them.

### ***World Wrestling Federation Video Games***

In June 1998, we formed a joint venture with THQ, a developer, publisher and distributor of interactive entertainment software for the leading hardware game platforms in the home video game market. The joint venture entered into a license agreement with World Wrestling Federation Entertainment under which it acquired the exclusive worldwide right to publish *World Wrestling Federation* video games on all hardware platforms. The games are designed, developed, manufactured and distributed by THQ. Through June 30, 2006, we are entitled to receive a guaranteed preferred return at varying rates of net sales of the video games depending on the cumulative unit sales and platform of each particular game. After June 30, 2006, the amount of the preferred return will be subject to renegotiation between THQ and us. The minimum preferred return to be distributed to us in each of the years in the period ending December 31, 2003 is \$2.6 million per year. THQ is entitled to receive the balance of the profits. The term of the license agreement expires on December 31, 2009, subject to a right of the joint venture to renew the license for an additional five years under various conditions.

The joint venture currently publishes titles for the Sony PlayStation and PlayStation 2, Nintendo 64 consoles, hand-held Nintendo Game Boy Color and Advance and personal computers (PCs). The joint venture launched its first products, a video game for the Nintendo 64 platform and a video game for GameBoy Color, in November 1999. It will also publish titles for new hardware platforms, such as Microsoft Xbox and Nintendo Game Cube, when and as they are introduced to the market and have established a sufficiently installed base to support new software. These titles are marketed to our existing customers as well as to game, electronics and other specialty stores, such as Electronics Boutique and Best Buy.

Under non-exclusive licenses with Sony, Nintendo, Sega and Microsoft held by THQ, THQ arranges for the manufacture of the CD-ROMs and cartridges. No other licenses are required for the manufacture of the PC titles.

Wrestling video games have demonstrated consistent popularity, with five of our wrestling-theme video games each having sold in excess of 1 million units in 1999, 2000 and 2001, at retail prices ranging from approximately \$42 to \$60. We believe that the success of the *World Wrestling Federation* titles is dependent on the graphic look and feel of the software, the depth and variation

of game play and the popularity of the World Wrestling Federation. We believe that as a franchise property, the *World Wrestling Federation* titles will have brand recognition and sustainable consumer appeal, which may allow the joint venture to use titles over an extended period of time through the release of sequels and extensions and to re-release such products at different price points in the future. In 2001, our PlayStation title *SmackDown* was re-released as a greatest hit.

The joint venture uses external software developers to conceptualize and develop titles. These developers receive advances based on specific development milestones and royalties in excess of the advances based on a fixed amount per unit sold or on a percentage, typically ranging from 8% to 12%, of net sales. Upon completion of development, each title is extensively play-tested by us and THQ and sent to the manufacturer and licensor for their review and approval.

## **Sales, Marketing and Distribution**

We sell all of our products through our own in-house sales staff and independent sales representatives. Purchasers of our products include toy and mass-market retail chain stores, department stores, drug and grocery store chains, club stores, toy specialty stores and wholesalers. The *Road Champs*, *Flying Colors* and Pentech product lines are also sold to smaller hobby shops, specialty retailers and corporate accounts, among others. Our five largest customers are Target, Kmart, Toys R' Us, Wal-Mart, and Kay Bee Toys, which accounted for approximately 63.2% of our net sales in 2000 and 54.7% of our net sales in 2001. Except for purchase orders relating to products on order, we do not have written agreements with our customers. Instead, we generally sell products to our customers pursuant to letters of credit or, in some cases, on open account with payment terms typically varying from 30 to 90 days. From time to time, we allow our customers credits against future purchases from us in order to facilitate their retail markdown and sales of slow-moving inventory. We also sell through e-commerce sites, including Toysrus.com.

We contract the manufacture of most of our products to unaffiliated manufacturers located in China. We sell the finished products on a letter of credit basis or on open account to our customers, who take title to the goods in Hong Kong or China. These methods allow us to reduce certain operating costs and working capital requirements. A portion of our sales, originate in the United States, so we hold certain inventory in our warehouse and fulfillment facilities. To date, substantially all of our sales have been to domestic customers. We intend to expand distribution of our products into foreign territories and, accordingly, we have (1) acquired Kidz Biz, a United Kingdom-based distributor of toy and related products, (2) engaged representatives to oversee sales in certain territories, (3) engaged distributors in certain territories, such as Funtastic in Australia, and (4) established direct relationships with retailers in certain territories.

We establish reserves for sales allowances, including promotional allowances and allowances for anticipated defective product returns, at the time of shipment. The reserves are determined as a percentage of net sales based upon either historical experience or on estimates or programs agreed upon by our customers.

We obtain, directly, or through our sales representatives, orders for our products from our customers and arrange for the manufacture of these products as discussed below. Cancellations are generally made in writing, and we take appropriate steps to notify our manufacturers of these cancellations.

We maintain a full-time sales and marketing staff, many of whom make on-site visits to customers for the purpose of showing product and soliciting orders for products. We also retain a number of independent sales representatives to sell and promote our products, both domestically

and internationally. Together with retailers, we sometimes test the consumer acceptance of new products in selected markets before committing resources to large-scale production.

We advertise our products in trade and consumer magazines and other publications, market our products at major and regional toy trade shows, conventions and exhibitions and carry on cooperative advertising with toy retailers and other customers. We produce and broadcast television commercials for our *World Wrestling Federation* action figure line as well as for some of our *Flying Colors* and *Road Champs* extreme sports products. We may also advertise some of our other products on television, if we expect that the resulting increase in our net sales will justify the relatively high cost of television advertising.

Outside of the United States, we currently sell our products primarily in Canada, Great Britain, Latin America, Australia, Japan and South Africa. Sales of our products abroad accounted for approximately \$22.5 million, or 8.9% of our net sales, in 2000 and approximately \$40.0 million, or 14.1% of our net sales, in 2001. We believe that foreign markets present an attractive opportunity, and we plan to intensify our marketing efforts and expand our distribution channels abroad.

## **Product Development**

Each of our product lines has an in-house manager responsible for product development, including identifying and evaluating inventor products and concepts and other opportunities to enhance or expand existing product lines or to enter new product categories. In addition, we create proprietary products, the principal source of products for our fashion doll line, and products to more fully exploit our concept and character licenses. While we do have the capability to create and develop products from inception to production, we generally use third parties to provide a substantial portion of the sculpting, sample making, illustration and package design required for our products in order to accommodate our increasing product innovations and introductions. Typically, the development process takes from three to nine months to culminate in production of the products for shipment to our customers.

We employ a staff of designers for our *Flying Colors* product lines. We generally acquire our other product concepts from unaffiliated third parties. If we accept and develop a third party's concept for new toys, we generally pay a royalty on the toys developed from this concept that are sold, and may, on an individual basis, guarantee a minimum royalty. Royalties payable to developers generally range from 1% to 6% of the wholesale sales price for each unit of a product sold by us. We believe that utilizing experienced third-party inventors gives us access to a wide range of development talent. We currently work with numerous toy inventors and designers for the development of new products and the enhancement of existing products. We believe that toy inventors and designers have come to appreciate our practice of acting quickly and decisively to acquire and market licensed products. In addition, we believe that our experience in the toy industry, our flexibility and our recent success in developing and marketing products make us more attractive to toy inventors and developers than some of our competitors.

Safety testing of our products is done at the manufacturers' facilities by an engineer employed by us or independent third-party contractors engaged by us, and is designed to meet safety regulations imposed by federal and state governmental authorities. We also monitor quality assurance procedures for our products for safety purposes.

## **Manufacturing and Supplies**

Our products are currently produced by manufacturers which we choose on the basis of quality, reliability and price. Consistent with industry practice, the use of third-party manufacturers enables us to avoid incurring fixed manufacturing costs. All of the manufacturing services

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performed overseas for us are paid for either by letter of credit or on open account with the manufacturers. To date, we have not experienced any material delays in the delivery of our products; however, delivery schedules are subject to various factors beyond our control, and any delays in the future could adversely affect our sales. Currently, we have ongoing relationships with approximately 20 manufacturers. We believe that alternative sources of supply are available, although we cannot assure you that adequate supplies of manufactured products can be obtained.

Although we do not conduct the day-to-day manufacturing of our products, we participate in the design of the product prototype and production tooling and molds for our products and we seek to ensure quality control by actively reviewing the production process and testing the products produced by our manufacturers. We employ quality control inspectors who rotate among our manufacturers' factories to monitor production.

The principal raw materials used in the production and sale of our toy products are zinc alloy, plastics, plush, printed fabrics, paper products and electronic components, all of which are currently available at reasonable prices from a variety of sources. Although we do not manufacture our products, we own the molds and tooling used in the manufacturing process, and these are transferable among manufacturers if we choose to employ alternative manufacturers. Molds and tooling represents substantially all of our long-lived assets, and amounted to \$14.4 million in 2000 and \$10.7 million in 2001. Substantially all of these assets are located in China.

### **Trademarks and Copyrights**

Most of our products are produced and sold under trademarks owned by or licensed to us. We typically register our properties, and seek protection under the trademark, copyright and patent laws of the United States and other countries where our products are produced or sold. These intellectual property rights can be significant assets. Accordingly, while we believe we are sufficiently protected, the loss of some of these rights could have an adverse effect on our business, financial condition and results of operations.

### **Competition**

Competition in the toy industry is intense. Many of our competitors have greater financial resources, larger sales and marketing and product development departments, stronger name recognition and longer operating histories and benefit from greater economies of scale. These factors, among others, may enable our competitors to market their products at lower prices or on terms more advantageous to customers than those we could offer for our competitive products. Competition often extends to the procurement of entertainment and product licenses, as well as to the marketing and distribution of products and the obtaining of adequate shelf space. Competition may result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on our business, financial condition and results of operations. In each of our product lines we compete against one or both of the toy industry's two dominant companies, Mattel and Hasbro. In addition, we compete, in our *Flying Colors* and Pentech product categories, with Rose Art Industries, Hasbro (Play-doh) and Binney & Smith (Crayola), and, in our toy vehicle lines, with Racing Champions. We also compete with numerous smaller domestic and foreign toy manufacturers, importers and marketers in each of our product categories. We expect that the joint venture's principal competition in the video game market is Electronic Arts, Activision and Acclaim Entertainment.

### **Seasonality and Backlog**

Sales of toy products are seasonal. In 2001, approximately 54.3% our net sales were made in the third and fourth quarters. Generally, the first quarter is the period of lowest shipments and sales in our business and the toy industry generally and therefore the least profitable due to various fixed

costs. Seasonality factors may cause our operating results to fluctuate significantly from quarter to quarter. However, Pentech's writing instrument and activity products may be counter-seasonal to the toy industry seasonality due to the higher volume generally shipped for back-to-school beginning in the second quarter. Our results of operations may also fluctuate as a result of factors such as the timing of new products (and expenses incurred in connection therewith) introduced by us or our competitors, the advertising activities of our competitors, delivery schedules set by our customers and the emergence of new market entrants. We believe, however, that the low retail price product lines that we sell may be less subject to seasonal fluctuations than higher priced toy products.

We ship products in accordance with delivery schedules specified by our customers, which usually request delivery of their products within three to six months of the date of their orders. Because customer orders may be canceled at any time without penalty, our backlog may not accurately indicate sales for any future period.

### **Government and Industry Regulation**

Our products are subject to the provisions of the Consumer Product Safety Act ("CPSA"), the Federal Hazardous Substances Act ("FHSA"), the Flammable Fabrics Act ("FFA") and the regulations promulgated thereunder. The CPSA and the FHSA enable the Consumer Products Safety Commission to exclude from the market consumer products that fail to comply with applicable product safety regulations or otherwise create a substantial risk of injury, and articles that contain excessive amounts of a banned hazardous substance. The FFA enables the Consumer Products Safety Commission to regulate and enforce flammability standards for fabrics used in consumer products. The Consumer Products Safety Commission may also require the repurchase by the manufacturer of articles. Similar laws exist in some states and cities and in various international markets. We maintain a quality control program designed to ensure compliance with all applicable laws. In addition, many of our *Child Guidance* products are sold under the Good Housekeeping Seal of Approval®. To qualify for this designation, our products are tested by Good Housekeeping to ensure compliance with its product safety and quality standards.

### **Employees**

As of March 29, 2002, we employed 310 persons, all of whom are full-time employees, including four executive officers. Two hundred and twenty-three of our employees were located in the United States, 16 were located in the United Kingdom, 51 were located in Hong Kong and 20 were located in China. We believe that we have good relationships with our employees. None of our employees is represented by a union.

### **Environmental Issues**

We are subject to legal and financial obligations under environmental, health and safety laws in the United States and in other jurisdictions where we operate. We are not currently aware of any material environmental liabilities associated with any of our operations.

## **Item 2. Properties**

Our principal executive offices occupy approximately 17,000 square feet of space in Malibu, California under a lease expiring on February 28, 2008. We have a lease, expiring August 31, 2002, for approximately 9,000 square feet of additional office space in Malibu, California which contains our design offices. We lease showroom and office space of approximately 8,000 square feet at the International Toy Center in New York City. We also have leased office and showroom space of approximately 5,000 square feet in Hong Kong from which we oversee our China-based third-party manufacturing operations, 318,000 square feet of warehouse space in City of Industry, California, 10,000 square feet of office space in Surrey, England and approximately 100,000 square feet of warehouse space in New Brunswick, New Jersey. In connection with our acquisition of Toymax, we have assumed various leases for office, warehouse and showroom space. Relating to Toymax, we occupy approximately 27,000 square feet of office space in Plainview, New York under a lease expiring on April 30, 2004. We lease showroom and office space of approximately 14,500 square feet at the International Toy Center in New York City. We occupy approximately 25,000 square feet of office and warehouse space in Clinton, Connecticut under a lease expiring September 30, 2007 from which the operations of Toymax's Go Fly a Kite division are carried out. We also lease an additional 4,800 square feet of office space in Hong Kong. We believe that our facilities in the United States, Hong Kong and England are adequate for our reasonably foreseeable future needs.

## **Item 3. Legal Proceedings**

On or about March 26, 2001, Rose Art Industries, Inc. ("Rose Art") and Licensing International, Ltd. commenced an action against us in the United States District Court for the District of New Jersey in which they allege our willful infringement of a patent owned by Licensing International and licensed to Rose Art through our production and sale of our Zyrofoam modeling compound. The plaintiffs seek injunctive relief, monetary damages in an unspecified amount, together with interest thereon, and reasonable attorneys' fees. We believe that their claims are without merit and we intend vigorously to defend against their action. On or about April 30, 2001, we filed an answer to their complaint in which we assert various defenses and counterclaims, including among others that their patent is invalid and unenforceable and that, in any case, the manufacture, use and sale of our product does not infringe their patent. Accordingly, we request the court to dismiss the complaint, to declare our product non-infringing and the subject patent invalid and/or unenforceable, and to award us our litigation costs. In our answer, we also allege Rose Art's infringement of one of our patents and seek injunctive relief, monetary damages in an unspecified amount and reasonable attorneys' fees. While these proceedings are in the discovery phase, the parties have been actively engaged in negotiations to resolve the disputed issues and have agreed in principle on the terms of a comprehensive settlement. However, we cannot be certain that the proposed settlement will be realized and, accordingly, we are unable to predict the outcome of the action or its impact on our business, financial condition or results of operations. We are a party to, and certain of our property is the subject of, various pending claims and legal proceedings that routinely arise in the ordinary course of our business, but we do not believe that any of these claims or proceedings will have a material effect on our business, financial condition or results of operations.

## **Item 4. Submission of Matters to a Vote of Security Holders**

No matter was submitted during the fourth quarter of 2001 to a vote of our security holders.



## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

#### Market Information

Our common stock is traded on the Nasdaq National Market under the symbol "JAKK." The following table sets forth, for the periods indicated, the range of high and low sales prices for our common stock on the Nasdaq National Market.

	Price Range of Common Stock	
	High	Low
<b>2000:</b>		
First quarter	\$25.19	\$13.94
Second quarter	25.00	13.25
Third quarter	20.75	9.00
Fourth quarter	10.56	7.00
<b>2001:</b>		
First quarter	15.00	8.00
Second quarter	19.44	8.78
Third quarter	21.80	12.60
Fourth quarter	25.38	12.44
<b>2002:</b>		
First quarter	\$23.70	\$15.85

On March 28, 2002, the last sale price of our common stock reported on the Nasdaq National Market was \$22.75 per share.

#### Security Holders

As of March 29, 2002, there were approximately 104 holders of record of our common stock.

#### Dividends

We have never paid any cash dividends on any of our common stock. The agreements applicable to our Line of Credit (see the discussion in Item 7 below) prohibit the payment of dividends on our common stock (except for dividends payable in shares of our common stock or other equity security). In any event, we currently intend to retain our future earnings, if any, to finance the growth and development of our business, and, accordingly, we do not plan to pay any cash dividends on our common stock in the foreseeable future.

#### Recent Sales of Unregistered Securities

On December 27, 2001, in connection with our acquisition of the Kidz Biz companies (see the discussion in Item 7 below), we issued 308,992 shares of our common stock to the three shareholders of the acquired companies. We issued these shares without registering them under the Securities Act of 1933 in reliance upon the exemption provided in Section 4(2) of that Act for transactions by an issuer not involving any public offering.

**Item 6. Selected Financial Data**

You should read the financial data set forth below in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes (included in Item 8).

	Year Ended December 31,				
	1997	1998	1999 (in thousands, except per share data)	2000	2001
<b>Consolidated Statement of Operations Data:</b>					
Net sales	\$41,945	\$85,253	\$183,685	\$252,288	\$284,309
Cost of sales	25,875	52,000	107,602	149,881	164,222
Gross profit	16,070	33,253	76,083	102,407	120,087
Selling, general and administrative expenses	11,895	24,007	51,154	80,435	89,575
Acquisition shut-down and product recall costs	—	—	—	1,469	1,214
Income from operations	4,175	9,246	24,929	20,503	29,298
Profit from Joint Venture	—	—	(3,605)	(15,906)	(6,675)
Interest, net	418	423	(1,588)	(3,833)	(2,057)
Other (income) expense, net	328	591	(182)	(92)	—
Income before provision for income taxes	3,429	8,232	30,304	40,334	38,030
Provision for income taxes	643	1,857	8,334	11,697	9,797
Net income	\$ 2,786	\$ 6,375	\$ 21,970	\$ 28,637	28,233
Basic earnings per share	\$ 0.40	\$ 0.75	\$ 1.55	\$ 1.50	\$ 1.55
Weighted average shares outstanding	6,932	8,539	13,879	19,060	18,199
Diluted earnings per share	\$ 0.35	\$ 0.59	\$ 1.39	\$ 1.41	\$ 1.45
Weighted average shares and equivalents outstanding	9,013	11,403	15,840	20,281	19,410
<b>At December 31,</b>					
	1997	1998	1999 (in thousands)	2000	2001
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 2,536	\$12,452	\$ 57,546	\$ 29,275	\$ 25,036
Working capital	3,368	13,736	113,170	86,897	116,487
Total assets	43,605	58,736	232,878	248,722	284,041
Long-term debt, net of current portion	6,000	5,940	9	1,000	73
Total stockholders’ equity	25,959	37,754	187,501	204,530	244,403

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors. You should read this section in conjunction with our consolidated financial statements and the related notes (included in Item 8).*

### **Overview**

JAKKS was founded to design, develop, produce and market children's toys and related products. We commenced business operations on July 1, 1995 when we assumed operating control over the toy business of Justin Products Limited (Justin) which consisted primarily of fashion dolls and accessories and electronic products for children.

One of our key strategies has been to grow through the acquisition or licensing of product lines, concepts and characters. Since our founding, we have broadly expanded our product lines to include many diverse products including some based on licensed characters and properties, such as *World Wrestling Federation* action figures and accessories.

We acquired *Road Champs* in February 1997, and have included the results of operations of *Road Champs* from February 1, 1997, the effective date of the acquisition. We acquired the *Child Guidance* and *Remco* trademarks in October 1997, both of which contributed to operations nominally in 1997, but contributed more significantly to operations commencing in 1998. We acquired Berk in June 1999 and have included the results of operations of Berk since June 29, 1999. In October 1999, we acquired Flying Colors Toys. The *Flying Colors* product lines contributed to operations beginning in the fourth quarter of 1999. In July 2000, we acquired Pentech International whose products include writing instruments and activity items. The Pentech products contributed nominally to operations beginning in the second quarter of 2000.

Our products currently include (1) action figures and accessories featuring licensed characters, principally from the *World Wrestling Federation*, (2) *Flying Colors* molded plastic activity sets, compound playsets and lunch boxes, (3) Wheels division products, including *Road Champs* die-cast collectible and toy vehicles and *Remco* toy vehicles and role-play toys and accessories, (4) Pentech writing instruments and activity products, (5) *Child Guidance* infant and pre-school electronic toys, toy foam puzzle mats and blocks, activity sets and outdoor products and (6) fashion dolls and related accessories.

We have a fifty percent interest in a joint venture with THQ, a developer, publisher and distributor of interactive entertainment software, and the joint venture licensed the rights from World Wrestling Federation Entertainment to publish *World Wrestling Federation* electronic video games on all platforms. The first games produced under this license, which expires initially December 31, 2009 and has a five-year renewal option, were released in November 1999. Through June 30, 2006, we are entitled to receive a guaranteed preferred return at varying rates of net sales of the video games depending on the cumulative unit sales and platform of each particular game, which we accrue in the quarter the games are sold. THQ retains the financial risk of the joint venture and is responsible for the day-to-day operations, including the development, sales and distribution of the licensed games for which they are entitled to receive the balance of any profits. For periods after June 30, 2006, the amount of the preferred return will be subject to renegotiation

between THQ and us. Distributions of the preferred return from the joint venture contributed significantly to our pre-tax income, representing 11.9% of pre-tax income in 1999, 39.4% in 2000 and 17.6% in 2001. The annual minimum preferred return to be distributed to us by the joint venture during each of the years in the period ending December 31, 2003 is \$2.6 million per year. We expect our aggregate return over this period to be significantly in excess of this amount, although we cannot predict with certainty that expected levels of return will be achieved and, in any case, we anticipate substantial fluctuations in the amount of the preferred return distributed to us from year to year. The amount of our preferred return in any year will be subject to various factors, including the number of games released, life cycle of hardware platforms, market conditions and changes in consumer interests.

In general, we acquire products or product concepts from others or we engage unaffiliated third parties to develop our own products, thus minimizing operating costs. Royalties payable to our developers generally range from 1% to 6% of the wholesale price for each unit of a product sold by us. We expect that outside inventors will continue to be a source of new products in the future. We also generate internally new product concepts, for which we pay no royalties.

We contract the manufacture of most of our products to unaffiliated manufacturers located in China. We sell the finished products on a letter of credit basis or on open account to our customers, who take title to the goods in Hong Kong or China. These methods allow us to reduce certain operating costs and working capital requirements. A portion of our sales originate in the United States, so we hold certain inventory in our warehouse and fulfillment facilities. To date, substantially all of our sales have been to domestic customers. We intend to expand distribution of our products into foreign territories and, accordingly, we have (1) acquired Kidz Biz, a United Kingdom based distributor of toys and related products that will serve as our European headquarters, (2) engaged representatives to oversee sales in certain territories, (3) engaged distributors in certain territories, such as Funtastic in Australia, and (4) established direct relationships with retailers in certain territories.

We establish reserves for sales allowances, including promotional allowances and allowances for anticipated defective product returns, at the time of shipment. The reserves are determined as a percentage of net sales based upon either historical experience or on estimates or programs agreed upon by our customers.

Our cost of sales consists primarily of the cost of goods produced for us by unaffiliated third-party manufacturers, royalties earned by licensors on the sale of these goods and amortization of the tools, dies and molds owned by us that are used in the manufacturing process. Other costs include inbound freight and provisions for obsolescence. Significant factors affecting our cost of sales as a percentage of net sales include (1) the proportion of net sales generated by various products with disparate gross margins, (2) the proportion of net sales made domestically, which typically carry higher gross margins than sales made in Hong Kong, and (3) the effect of amortizing the fixed cost components of cost of sales, primarily amortization of tools, dies and molds, over varying levels of net sales.

Selling, general and administrative expenses include costs directly associated with the selling process, such as sales commissions, advertising and travel expenses, as well as general corporate expenses, goodwill and trademark amortization and product development. We have recorded goodwill of approximately \$96.5 million and trademarks of approximately \$13.9 million in connection with acquisitions made to date. Goodwill has been amortized over a 30-year period, while trademark acquisition costs have been amortized over periods ranging from 5 to 30 years.

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Beginning in fiscal 2002, goodwill and certain intangible assets will be written down on an impairment basis where losses in value will be recorded when and as material impairment has occurred in the underlying assets.

## Results of Operation

The following table sets forth, for the periods indicated, certain statement of operations data as a percentage of net sales.

	Years Ended December 31,				
	1997	1998	1999	2000	2001
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	61.7	61.0	58.6	59.4	57.8
Gross profit	38.3	39.0	41.4	40.6	42.2
Selling, general and administrative expenses	28.4	28.2	27.8	31.9	31.5
Acquisition shut-down and product recall costs	—	—	—	0.5	0.4
Income from operations	9.9	10.8	13.6	8.2	10.3
Profit from Joint Venture	—	—	(2.0)	(6.3)	(2.3)
Interest, net	1.0	0.4	(0.9)	(1.5)	(0.7)
Other (income) expense, net	0.7	0.7	—	—	—
Income before income taxes	8.2	9.7	16.5	16.0	13.3
Provision for income taxes	1.6	2.2	4.5	4.6	3.4
Net income	6.6%	7.5%	12.0%	11.4%	9.9%

### Years Ended December 31, 2001 and 2000

**Net Sales.** Net sales increased \$32.0 million, or 12.7%, to \$284.3 million in 2001 from \$252.3 million in 2000. The growth in net sales was due primarily to the continuing growth in sales of our Flying Colors product and an increase in sales of our World Wrestling Federation wrestling products, as well as the addition of Pentech products, which began contributing to operations in August 2000, and the introduction of our products based on the Battlebots television show though offset by a decrease in sales of our Doll products and our Wheels products, consisting primarily of our Road Champs die-cast toy and collectible vehicles including BXS die-cast bicycle, MXS die-cast motorcycles and other extreme sports products.

**Gross Profit.** Gross profit increased \$17.7 million, or 17.3%, to \$120 million in 2001, or 42.2% of net sales, from \$102.4 million, or 40.6% of net sales, in 2000. The overall increase in gross profit was attributable to the increase in net sales and the increase in the gross profit margin. The increase in gross profit margin of 1.6% of net sales is primarily attributable to the decrease in royalty expense as a percentage of net sales due to changes in the product mix and lower product costs, which was partially offset by an increase in amortization expense relating to molds and tools used in the manufacture of our products.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$89.6 million in 2001 and \$80.4 million in 2000, constituting 31.5% and 31.9% of net sales, respectively. The overall increase of \$9.1 million in such costs in 2001 was due in large part to a \$5.0 million dollar reserve on accounts receivable relating to the Chapter 11 bankruptcy filing of Kmart, which was filed in January of 2002, and the increase in net sales with its proportionate

impact on variable selling costs such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses, among others. The decrease as a percentage of net sales is primarily attributable to the fixed nature of certain of these expenses with a concurrent increase in net sales. We produced and aired television commercials in support of several of our products, including World Wrestling Federation action figures, Road Champs extreme sports products and Flying Colors products in 2000 and 2001. From time to time, we may increase our advertising efforts, if we deem it is appropriate for particular products.

*Acquisition Shut-down and Other Costs.* Acquisition shut-down and other costs in 2001 relate to shut-down costs, including lease termination, relocation and consulting fees and expenses, of certain operations of Pentech, acquired in 2000, and such costs in 2000 relate to shut-down costs, including lease termination, relocation, and consulting fees and expenses of certain operations of Flying Colors, acquired in 1999. Operations impacted by both shut-downs were sales, design, distribution, and administration. Total Pentech costs is comprised of \$0.3 million relating to lease terminations and abandonments, \$0.2 million in consulting fees and expenses incurred to facilitate the integration, \$0.4 million relating to relocation expense, and \$0.1 million relating to the abandonments of other assets. Twenty-one Pentech employees received severance totaling \$0.4 million, that was accrued in the fourth quarter of 2000 and was fully paid out by June 30, 2001. The integration of Pentech was substantially completed in the second quarter of 2001 and related costs are expected to be nominal in future quarters. In 2000, total Flying Colors costs is comprised of \$0.2 million relating to lease terminations and abandonments and \$0.3 million relating to relocation expense. The integration of Flying Colors was completed in 2000. Additionally, 2000 includes \$0.6 million relating to the recall of one of our products.

*Profit from Joint Venture.* Profit from our joint venture with THQ decreased in 2001 due to a decrease in our preferred return resulting from fewer releases of *World Wrestling Federation* video games by our joint venture in 2001 than in 2000. In 2001, the joint venture released two Nintendo GameBoy titles, which have lower unit sales and sales prices than the other game platforms, and one Sony Play Station 2 title along with modest carryover sales of titles released in 2000 and earlier, as compared to 2000, in which the joint venture released a total of four new titles consisting of two Sony Play Station titles, one Nintendo 64 title and one Sega Dreamcast title in addition to strong carryover sales of the two 1999 releases. Profit from the joint venture contributed significantly to our pre-tax profit, representing 39.4% of pre-tax income in 2000 and 17.6% in 2001. Through June 30, 2006, we are entitled to receive a guaranteed preferred return at varying rates of net sales of the video games depending on the cumulative unit sales and platform of each particular game, and after June 30, 2006, the amount of the preferred return is subject to renegotiation between THQ and us. The minimum preferred return to be distributed to us by the joint venture during each of the years in the period ending December 31, 2003 is \$2.6 million per year. We expect our aggregate return over the remaining term of the license agreement ending December 31, 2009 to be significantly in excess of this amount, although we cannot predict with certainty that expected levels of return will be achieved and, in any case, we anticipate substantial fluctuations in the amount of the preferred return distributed to us from year to year.

*Interest, Net.* Interest income decreased in 2001 due to lower average cash balances during 2001 than in 2000 as a result of significant disbursements made in the third and fourth quarters of 2000 related to the acquisition of Pentech and the repurchase by the Company of its common stock. Interest expense was nominal in 2000 and 2001.

*Provision for Income Taxes.* Provision for income taxes included Federal, state and foreign income taxes in 2000 and 2001, at effective tax rates of 29.0% in 2000 and 25.8% in 2001,

benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of December 31, 2001, we had deferred tax assets of approximately \$0.4 million for which no allowance has been provided since, in the opinion of management, realization of the future benefit is probable. In making this determination, management considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

***Years Ended December 31, 2000 and 1999***

*Net Sales.* Net sales increased \$68.6 million, or 37.3% to \$252.3 million in 2000 from \$183.7 million in 1999. The significant growth in net sales was due primarily to the continuing growth in our Wheels division, consisting primarily of our Road Champs die-cast toy and collectible vehicles with the launch of the lines of extreme sports products, including our BXS die-cast bicycles, fashion and holiday dolls, as well as the addition of Flying Colors products, which began contributing to operations beginning in the fourth quarter of 1999, and Pentech products, which began contributing to operations in August 2000, offset by a decrease in sales of our World Wrestling Federation wrestling products.

*Gross Profit.* Gross profit increased \$26.3 million, or 34.6%, to \$102.4 million in 2000, or 40.6% of net sales, from \$76.1 million, or 41.4% of net sales, in 1999. The overall increase in gross profit was attributable to the significant increase in net sales. Gross profit margin decreased slightly mainly due to an increase in the amortization expense of molds and tools used in the manufacture of our products and royalty expense as a percentage of net sales due to changes in the product mix and the launch of a larger number of products in 2000.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$80.4 million in 2000 and \$51.1 million in 1999, constituting 31.9% and 27.8% of net sales, respectively. The overall significant increase of \$29.3 million in such costs was due to costs incurred in support of the Company's development, marketing and distribution of products under its recently acquired Flying Colors and Pentech brands. The overall dollar increase was due to the significant increase in net sales with its proportionate impact on variable selling costs such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses, among others. We produced television commercials in support of several of our products, including World Wrestling Federation action figures, Flying Colors' Gooze and It's a Girl Thing in 1999 and 2000 and we increased our overall media buys in 2000. From time to time, we may increase our advertising efforts, including the use of more expensive advertising media, such as television, if we deem it appropriate for particular products.

*Acquisition Shut-down and Product Recall Costs.* These expenses in 2000 consisted mainly of costs related to the lease termination of certain Flying Colors facilities and other related shut-down costs, and costs related to the recall of one of our products. No such expenses were incurred in 1999.

*Profit from Joint Venture.* Beginning in the fourth quarter of 1999, we began to earn our preferred return on the sale of *World Wrestling Federation* video games by our joint venture with THQ with the release of two games consisting of one Nintendo 64 title and one Nintendo GameBoy Color title, which as lower unit sales and sales price than the other game platforms, whereas in 2000, four titles were released plus strong carryover sales of the two 1999 releases. The 2000 releases consisted of two Sony Play Station titles and one each for Nintendo 64 and Sega Dream cast. Profit from the joint venture contributed significantly to our pre-tax income,

representing 11.9% of pre-tax income in 1999 and 39.4% in 2000. The minimum preferred return to be distributed to us by the joint venture during each of the years in the period ending December 31, 2003 is \$2.6 million per year. We expect our aggregate return over the remaining term of the license agreement ending December 31, 2009 to be significantly in excess of this amount, although we cannot predict with certainty that expected levels of return will be achieved and, in any case, we anticipate substantial fluctuations in the amount of the preferred return distributed to us from year to year.

*Interest, Net.* We had significantly higher average cash balances during 2000 than in 1999 due to the net proceeds from the sale of our common stock in December 1999. In addition, we assumed certain interest-bearing obligations in 2000 in conjunction with the Pentech acquisition and we had convertible debentures outstanding in 1999.

*Other (Income) Expense, Net.* In 1999 and 2000, only nominal amounts of Other Income were recorded.

*Provision for Income Taxes.* Provision for income taxes included Federal, state and foreign income taxes in 1999 and 2000 at effective tax rates of 27.5% in 1999 and 29.0% in 2000, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of December 31, 2000, we had deferred tax assets of approximately \$0.4 million for which no allowance has been provided since, in the opinion of management, realization of the future benefit is probable. In making this determination, management considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

### Quarterly Fluctuations and Seasonality

We have experienced significant quarterly fluctuations in operating results and anticipate these fluctuations in the future. The operating results for any quarter are not necessarily indicative of results for any future period. Our first quarter is typically expected to be the least profitable as a result of lower net sales but substantially similar fixed operating expenses. This is consistent with the performance of many companies in the toy industry.

The following table presents our unaudited quarterly results for the years indicated. The seasonality of our business is reflected in this quarterly presentation.

	1999				2000				2001			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$24,960	\$35,981	\$60,236	\$62,508	\$50,782	\$50,578	\$91,838	\$59,090	\$59,962	\$70,141	\$92,768	\$61,438
As a % of full year	13.6%	19.6%	32.8%	34.0%	20.1%	20.1%	36.4%	23.4%	21.1%	24.7%	32.6%	21.6%
Gross profit	\$10,764	\$14,649	\$24,759	\$25,912	\$20,104	\$21,748	\$37,672	\$22,883	\$24,468	\$32,609	\$39,056	\$23,953
As a % of full year	14.2%	19.3%	32.5%	34.0%	19.7%	21.2%	36.8%	22.3%	20.4%	27.2%	32.5%	19.9%
As a % of net sales	43.1%	40.7%	41.1%	41.5%	39.6%	43.0%	41.0%	38.7%	40.8%	46.5%	42.1%	39.0%
Income (loss) from operations	\$ 2,743	\$ 4,225	\$ 9,893	\$ 8,068	\$ 3,552	\$ 6,095	\$11,201	\$ (345)	\$ 7,573	\$ 9,723	\$14,562	\$ (1,410)
As a % of full year	11.0%	17.0%	40.0%	32.0%	17.3%	29.8%	54.6%	(1.7)%	25.8%	33.2%	49.7%	(4.8)%
As a % of net sales	11.0%	11.7%	16.4%	13.1%	7.0%	12.1%	12.2%	(0.6)%	12.6%	13.9%	15.7%	(2.3)%
Income before income taxes	\$ 2,743	\$ 4,587	\$10,426	\$12,548	\$ 9,715	\$ 8,877	\$13,615	\$ 8,127	\$ 8,480	\$ 9,478	\$15,250	\$ 4,822
As a % of net sales	11.0%	12.7%	17.3%	19.9%	19.1%	17.6%	14.8%	13.8%	14.1%	13.5%	16.4%	7.8%
Net income	\$ 2,005	\$ 3,355	\$ 7,642	\$ 8,968	\$ 6,603	\$ 6,237	\$ 9,769	\$ 6,028	\$ 6,021	\$ 6,873	\$10,949	\$ 4,390
As a % of net sales	8.0%	9.3%	12.7%	14.4%	13.0%	12.3%	10.6%	10.2%	10.0%	9.8%	11.8%	7.1%
Diluted earnings per share	\$ 0.17	\$ 0.21	\$ 0.44	\$ 0.49	\$ 0.32	\$ 0.31	\$ 0.48	\$ 0.32	\$ 0.32	\$ 0.36	\$ 0.56	\$ 0.22
Weighted average shares and equivalents outstanding	12,624	15,732	17,541	18,378	20,374	20,371	20,330	18,621	18,920	19,259	19,586	19,763



## Liquidity and Capital Resources

As of December 31, 2001, we had working capital of \$116.5 million, as compared to \$86.9 million as of December 31, 2000. This increase was primarily attributable to operating activities.

Operating activities provided net cash of \$13.4 million, net of the purchase of marketable securities of \$23.5 million, in the year ended December 31, 2001 as compared to \$30.0 million, including the sale of marketable securities of \$25.7 million, in 2000. Net cash was provided primarily by net income and non-cash charges, such as depreciation and amortization and recognition of compensation expense from stock option grants, as well as the increases in accrued expenses and deferred income taxes and decrease in the preferred return due from the joint venture, which were offset in part by increases in accounts receivable and inventory and decreases in the reserve for sales returns and allowances and income taxes payable. As of December 31, 2001, we had cash and cash equivalents of \$25.0 million and marketable securities of \$37.1 million.

Operating activities provided net cash of \$30.0 million in the year ended December 31, 2000 as compared to having used \$30.4 million in 1999. Net cash was provided primarily by net income and non-cash charges, such as depreciation and amortization and recognition of compensation expense from stock option grants, as well as increases in accounts payable, income taxes payable and deferred income taxes, which were offset in part by increases in accounts receivable, inventory and the preferred return due from the joint venture, the purchase of marketable securities and the decrease in accrued expenses.

Our investing activities used net cash of \$19.4 million in the year ended December 31, 2001, as compared to \$47.9 million in 2000, consisting primarily of the purchase of molds and tooling used in the manufacture of our products in 2001 and 2000, and goodwill acquired in the acquisitions of Kidz Biz Ltd. and Kidz Biz Far East in 2001 and Pentech in 2000. As part of our strategy to develop and market new products, we have entered into various character and product licenses with royalties ranging from 1% to 12% payable on net sales of such products. As of December 31, 2001, these agreements required future aggregate minimum guarantees of \$11.5 million, exclusive of \$2.0 million in advances already paid.

Our investing activities used net cash of \$47.9 million in the year ended December 31, 2000, as compared to \$46.6 million in 1999, consisting primarily of the purchase of molds and tooling used in the manufacture of our products in 2000 and 1999, goodwill acquired in the acquisitions of Pentech in 2000 and Flying Colors and Berk in 1999 and the granting of loans to three officers of the Company.

Our financing activities provided net cash of \$1.8 million in the year ended December 31, 2001, compared to having used cash of \$10.4 million in 2000. In 2000, we used cash primarily to repurchase 1,493,600 shares of our common stock for a total of \$12.9 million, while cash was provided by the exercise of stock options and warrants and the assumption of debt related to the acquisition of Pentech. Net cash provided in 2001 consisted primarily of proceeds from the exercise of stock options and warrants, offset by the repayment of debt assumed in the acquisition of Pentech.

Our financing activities used net cash of \$10.4 million in the year ended December 31, 2000 compared to having provided net cash of \$122.1 million in 1999. Net cash provided in 1999 consisted primarily of proceeds from the issuance of our common stock in our public offerings in

May and December 1999 and the exercises of stock options and warrants, partially offset by dividends paid to holders of our Series A Cumulative Convertible Preferred Stock.

In May 1999, we received \$51.9 million in net proceeds from the sale of 3,999,844 shares of our common stock. We used substantially all of these proceeds to fund our acquisition of Flying Colors Toys. In December 1999, we received \$65.9 million in net proceeds from the sale of 2,811,111 shares of our Common Stock. These proceeds, which we invested temporarily in marketable securities and cash equivalents, were applied to our product acquisition, development, working capital and general corporate needs.

In June 1999, we purchased all the outstanding capital stock of Berk for approximately \$3.1 million in cash. Berk is a leading producer of educational toy foam puzzle mats and blocks featuring popular licensed characters and non-licensed activity sets and outdoor products.

In October 1999, we acquired Flying Colors Toys for approximately \$34.7 million in cash for the stock and paid off approximately \$17.6 million of indebtedness. We also agreed to pay an earn-out of up to \$4.5 million in each of the three twelve-month periods following the closing if gross profit of *Flying Colors* products achieve certain targeted levels during these periods. The maximum earn-out of \$4.5 million was earned in each of the earn-out periods ended September 30, 2000 and 2001. Flying Colors Toys' principal products include molded plastic activity kits, compound playsets and lunch boxes featuring licensed characters.

In July 2000, we acquired all of the outstanding capital stock of Pentech for an aggregate purchase price of approximately \$20.6 million, which was paid in cash on the closing of the transaction. In addition, we paid on the closing \$10.0 million to pay down certain indebtedness of Pentech and assumed liabilities of approximately \$25.5 million. Pentech designs, produces and markets licensed pens, markers, pencils, and other writing instruments, craft and activity kits, and related stationery products.

In October 2001, we secured a syndicated line of credit totaling \$50.0 million with a consortium of banks led by Bank of America, N.A. ("Line of Credit"). The Line of Credit will be available for future acquisitions and working capital and is secured by a lien on substantially all of our assets and contains customary financial and non-financial covenants which require us to maintain a minimum net worth and limit our ability to incur additional indebtedness, pay cash dividends or make distributions, sell assets and enter into certain mergers or acquisitions. We are required to not have any outstanding borrowings in excess of \$30.0 million for a period of at least 30 consecutive days during the first fiscal quarter of each year of the agreement. Amounts outstanding under this facility bear interest at 0.25% plus the greater of the Prime Rate or the Federal Funds Rate plus 0.5%, subject to adjustment based on certain financial ratios. As of December 31, 2001, we had no outstanding borrowings.

On December 27, 2001, we acquired all of the outstanding capital stock of Kidz Biz Limited, a United Kingdom company, and an affiliated Hong Kong company, Kidz Biz Far East Limited, for an aggregate purchase price of approximately \$12.4 million. Total consideration was paid on the closing of the transaction in cash in the amount of \$6.4 million and the issuance of 308,992 shares of our common stock at a value of \$6.0 million. In addition, we agreed to pay an earn-out for each of 2002, 2003, 2004 and 2005, based on the year over year increase in Kidz Biz sales, payable by delivery of up to 25,749 shares of our common stock. We also employed a former director of the Kidz Biz companies, who was one of the selling shareholders, to perform various executive and supervisory services for the Kidz Biz companies during a term ending on December 31, 2005. His base salary is £305,000 per year in the first twelve-month period of the term and £315,000 per year

during the balance of the term. We also granted to him an option under our Option Plan (which is described in Item 11 below) to purchase up to 50,000 shares of our common stock at an exercise price of \$19.02. This option vests in four equal increments on December 27, 2002 and the next three anniversaries thereof and expires on December 26, 2007. Kidz Biz distributes toys and related products in the United Kingdom, Ireland and the Channel Islands.

We believe that our cash flows from operations, cash and cash equivalents on hand, marketable securities and the availability under the Line of Credit will be sufficient to meet our working capital and capital expenditure requirements and provide us with adequate liquidity to meet our anticipated operating needs for at least the next 12 months. Although operating activities are expected to provide cash, to the extent we grow significantly in the future, our operating and investing activities may use cash and, consequently, this growth may require us to obtain additional sources of financing. There can be no assurance that any necessary additional financing will be available to us on commercially reasonable terms, if at all.

## **Exchange Rates**

We sell all of our products in U.S. dollars and pay for all of our manufacturing costs in either U.S. or Hong Kong dollars. Operating expenses of the Hong Kong office are paid in Hong Kong dollars. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK\$7.80 to US\$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. We cannot assure you that the exchange rate between the United States and Hong Kong currencies will continue to be fixed or that exchange rate fluctuations will not have a material adverse effect on our business, financial condition or results of operations.

## **Recent Acquisition**

On March 11, 2002, we purchased 8,100,065 shares of the common stock of Toymax International, Inc. (“Toymax”) from four of its stockholders. The aggregate purchase price for these shares was approximately \$24.3 million in cash and 646,384 shares of our common stock. Prior to that date, we had acquired 132,754 shares of Toymax common stock, so that, as of March 29, 2002, we owned 8,232,819 shares of Toymax common stock, representing approximately 66.8% of the outstanding shares of Toymax common stock. In connection with this acquisition, Toymax’s board of directors has been reconfigured to consist of six directors designated by JAKKS and two directors who had been serving prior to the closing of the acquisition. In addition, certain of our executive officers have been installed as Toymax’s senior management. To complete our acquisition of Toymax, we have entered into an Agreement of Merger with one of our wholly-owned subsidiaries (“Newco”) and Toymax (the “Merger Agreement”) pursuant to which the parties have agreed that, subject to the conditions set forth therein, including, among others, the approval by Toymax’s stockholders at a meeting to be convened for such purpose, Newco will merge into Toymax in a transaction (the “Merger”) in which the surviving corporation will become one of our wholly-owned subsidiaries and the stockholders of Toymax, except for us, Newco or Toymax or a subsidiary thereof, will receive merger consideration consisting of \$3.00 in cash and 0.0798 share of our common stock (subject to certain contingent adjustments). Pursuant to the Merger Agreement, at the effective time of the Merger, each outstanding option to purchase Toymax common stock will terminate and the holder thereof will receive a corresponding option to purchase JAKKS common stock or, under certain circumstances, a cash payment in accordance with the formula prescribed in the Merger Agreement. We currently estimate that the merger consideration payable in the Merger (which is subject to certain conditions and contingent

adjustments) will consist of approximately \$11.8 million in cash and approximately 312,500 shares of our common stock.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States and international borrowing rates and changes in foreign currency exchange rates. In addition, we are exposed to market risk in certain geographic areas that have experienced or remain vulnerable to an economic downturn, such as China. We purchase substantially all of our inventory from companies in China, and, therefore, we are subject to the risk that such suppliers will be unable to provide inventory at competitive prices. While we believe that, if such an event were to occur we would be able to find alternative sources of inventory at competitive prices, we cannot assure you that we would be able to do so. These exposures are directly related to our normal operating and funding activities. Historically and as of December 31, 2001, we have not used derivative instruments or engaged in hedging activities to minimize our market risk.

**Interest Rate Risk**

As of December 31, 2001, we do not have any outstanding balances on our Line of Credit, and we have only nominal interest-bearing obligations. Accordingly, we are not generally subject to any direct risk of loss arising from changes in interest rates.

**Foreign Currency Risk**

We have wholly-owned subsidiaries in Hong Kong and the United Kingdom. Sales from Hong Kong operations are denominated in U.S. dollars. However, domestic sales from the United Kingdom, purchases of inventory and operating expenses are typically denominated in local currency, thereby creating exposure to changes in exchange rates. Changes in the Hong Kong dollar or British Pound/U.S. dollar exchange rate may positively or negatively affect our gross margins, operating income and retained earnings. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK\$7.80 to US\$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. We do not believe that near-term changes in exchange rates, if any, will result in a material effect on our future earnings, fair values or cash flows, and therefore, we have chosen not to enter into foreign currency hedging transactions. With respect to the British Pound, we will monitor its volatility frequently throughout the coming year. While we have not engaged in foreign currency hedging, we may in the future use hedging programs to reduce financial market risks if it is determined that such hedging activities are appropriate to reduce risk. We cannot assure you that this approach will be successful, especially in the event of a significant and sudden change in the value of these currencies.

**Item 8. Consolidated Financial Statements and Supplementary Data**

**INDEPENDENT AUDITORS' REPORT**

The Stockholders

JAKKS Pacific, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of JAKKS Pacific, Inc. and Subsidiaries as of December 31, 2000 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows and the financial statement schedule for each of the three years in the period ended December 31, 2001. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and schedule referred to above present fairly, in all material respects, the financial position of JAKKS Pacific, Inc. and Subsidiaries as of December 31, 2000 and 2001, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ PANNELL KERR FORSTER

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PANNELL KERR FORSTER  
Certified Public Accountants  
A Professional Corporation

Los Angeles, California

February 11, 2002, except for  
note 21, for which the  
date is March 11, 2002

**JAKKS PACIFIC, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2000	2001
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 29,275,424	\$ 25,036,203
Marketable securities	13,617,912	37,119,071
Accounts receivable, net of allowance for uncollectible accounts of \$3,011,702 and \$7,273,497 for 2000 and 2001, respectively	47,053,699	52,888,452
Inventory, net of reserves of \$7,321,637 and \$2,590,099 for 2000 and 2001, respectively	30,534,826	32,023,960
Prepaid expenses and other	5,655,480	4,735,059
Advanced royalty payments	2,495,027	1,991,788
Total current assets	128,632,368	153,794,533
<b>Property and equipment</b>		
Office furniture and equipment	3,779,585	5,305,212
Molds and tooling	23,929,329	26,355,861
Leasehold improvements	1,927,805	1,854,501
Total	29,636,719	33,515,574
Less accumulated depreciation and amortization	10,653,467	17,762,905
Property and equipment, net	18,983,252	15,752,669
Notes Receivable - Officers	2,450,000	2,224,000
Intangibles and deposits, net	2,203,679	2,945,075
Investment in joint venture	9,758,359	7,893,312
Goodwill, net	74,590,189	89,863,415
Trademarks, net	12,104,546	11,567,679
Total assets	\$248,722,393	\$284,040,683
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 14,619,519	\$ 12,692,826
Accrued expenses	12,539,290	18,068,725
Reserve for sales returns and allowances	6,553,231	4,952,879
Current portion of long-term debt	400,000	22,560
Income taxes payable	7,623,355	1,570,973
Total current liabilities	41,735,395	37,307,963
Long-term debt, net of current portion	1,000,000	72,510
Deferred income taxes	1,456,817	2,256,817
Total liabilities	44,192,212	39,637,290
Commitments and contingencies		
<b>Stockholders' equity</b>		
Common stock, \$.001 par value; 25,000,000 shares authorized; 19,485,582 and 20,320,354 shares issued, respectively	19,485	20,320
Additional paid-in capital	156,475,343	168,114,819
Treasury Stock, at cost, 1,493,600 shares	(12,911,483)	(12,911,483)
Retained earnings	60,946,836	89,179,737
Total stockholders' equity	204,530,181	244,403,393
Total liabilities and stockholders' equity	\$248,722,393	\$284,040,683

See notes to consolidated financial statements.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

Years Ended December 31,

	1999	2000	2001
Net sales	\$183,685,124	\$252,287,943	\$284,309,021
Cost of sales	107,601,639	149,880,804	164,222,261
Gross profit	76,083,485	102,407,139	120,086,760
Selling, general and administrative expenses	51,154,627	80,434,872	89,574,503
Acquisition shut-down and product recall costs	—	1,468,798	1,214,101
Income from operations	24,928,858	20,503,469	29,298,156
Profit from Joint Venture	(3,604,487)	(15,905,860)	(6,675,428)
Interest, net	(1,588,043)	(3,833,359)	(2,056,526)
Other (income) expense, net	(182,305)	(91,670)	—
Income before provision for income taxes	30,303,693	40,334,358	38,030,110
Provision for income taxes	8,333,844	11,696,963	9,797,209
Net income	\$ 21,969,849	\$ 28,637,395	\$ 28,232,901
Basic earnings per share	\$ 1.55	\$ 1.50	\$ 1.55
Diluted earnings per share	\$ 1.39	\$ 1.41	\$ 1.45

*See notes to consolidated financial statements.*

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
DECEMBER 31, 1999, 2000 AND 2001**

	Common Shares Outstanding	Convertible Preferred Shares Outstanding	Par Value Per Share	Stock Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Unearned Compensation From Grant of Options	Total Stockholders' Equity
Balance, December 31, 1998	9,039,063	1,000	\$0.001	\$ 9,040	\$ 27,041,523	\$ —	\$10,777,662	\$(74,272)	\$ 37,753,953
Conversion of preferred stock	—	(1,000)	0.001	(1)	1	—	—	—	—
Issuance of common stock from conversion of preferred stock	837,987	—	0.001	838	(838)	—	—	—	—
Issuance of common stock for cash	6,810,955	—	0.001	6,811	117,785,304	—	—	—	117,792,115
Issuance of common stock from conversion of convertible debentures	1,565,218	—	0.001	1,565	5,598,685	—	—	—	5,600,250
Dividends paid	—	—	—	—	—	—	(438,070)	—	(438,070)
Exercise of options and warrants	1,019,469	—	0.001	1,020	4,748,106	—	—	—	4,749,126
Earned compensation from grant of options	—	—	—	—	—	—	—	74,272	74,272
Net income	—	—	—	—	—	—	21,969,849	—	21,969,849
Balance, December 31, 1999	19,272,692	—	0.001	19,273	155,172,781	—	32,309,441	—	187,501,495
Exercise of options and warrants	212,890	—	0.001	212	1,171,031	—	—	—	1,171,243
Earned compensation for fully vested stock options	—	—	—	—	131,531	—	—	—	131,531
Repurchase of common stock	(1,493,600)	—	—	—	—	(12,911,483)	—	—	(12,911,483)
Net income	—	—	—	—	—	—	28,637,395	—	28,637,395
Balance, December 31, 2000	17,991,982	—	0.001	19,485	156,475,343	(12,911,483)	60,946,836	—	204,530,181
Exercise of options and warrants	525,780	—	0.001	526	3,069,219	—	—	—	3,069,745
Earned compensation for fully vested stock options	—	—	—	—	2,570,566	—	—	—	2,570,566
Issuances of common shares for Kidz Biz	308,992	—	0.001	309	5,999,691	—	—	—	6,000,000
Net Income	—	—	—	—	—	—	28,232,901	—	28,232,901
Balance, December 31, 2001	18,826,754	—	\$0.001	\$20,320	\$168,114,819	\$(12,911,483)	\$89,179,737	—	\$244,403,393

See notes to consolidated financial statements.



**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31,

	1999	2000	2001
<b>Cash flows from operating activities</b>			
Net income	\$ 21,969,849	\$ 28,637,395	\$ 28,232,901
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Depreciation and amortization	4,571,374	9,272,917	12,219,545
Compensation from stock option grants	74,272	131,531	2,570,566
Profit from joint venture	(3,604,487)	(6,100,020)	2,977,201
Loss on disposal of property and equipment	12,081	—	15,668
Changes in operating assets and liabilities			
Sale (purchase) of marketable securities	(39,333,944)	25,716,032	(23,501,159)
Accounts receivable	(26,098,178)	(9,028,796)	(5,834,753)
Inventory	(16,944,567)	(10,671,318)	(1,489,134)
Advanced royalty payments	(829,696)	(1,357,789)	503,239
Prepaid expenses and other	(586,337)	(4,037,788)	920,421
Accounts payable	6,257,539	4,656,864	(1,926,693)
Accrued expenses	11,484,794	(3,317,215)	5,529,435
Income taxes payable	1,793,163	4,411,429	(6,052,382)
Reserve for sales returns and allowances	9,976,484	(8,764,770)	(1,600,352)
Deferred income taxes	869,129	442,983	800,000
Total adjustments	(52,358,373)	1,354,060	(14,868,398)
Net cash provided (used) by operating activities	(30,388,524)	29,991,455	13,364,503
<b>Cash flows from investing activities</b>			
Property and equipment	(10,397,828)	(13,787,805)	(4,971,185)
Other assets	(763,249)	(1,134,864)	(1,230,664)
Investment in joint venture	990,856	—	(1,112,154)
Cash paid in excess of cost over toy business assets acquired (goodwill)	(36,446,401)	(30,535,848)	(12,280,536)
Notes Receivable — Officers	—	(2,450,000)	226,000
Net cash used by investing activities	(46,616,622)	(47,908,517)	(19,368,539)
<b>Cash flows from financing activities</b>			
Proceeds from sale of common stock	117,792,115	—	—
Repurchase of common stock	—	(12,911,483)	—
Conversion of convertible debentures	(17,500)	—	—
Proceeds from debt	13,680	1,500,000	95,070
Proceeds from stock options and warrants exercised	4,749,126	1,171,243	3,069,745
Dividends paid	(438,070)	—	—
Repayments of debt	—	(113,680)	(1,400,000)
Net cash provided (used) by financing activities	122,099,351	(10,353,920)	1,764,815
Net increase (decrease) in cash and cash equivalents	45,094,205	(28,270,982)	(4,239,221)
Cash and cash equivalents, beginning of year	12,452,201	57,546,406	29,275,424
Cash and cash equivalents, end of year	\$ 57,546,406	\$ 29,275,424	\$ 25,036,203
Cash paid during the period for:			
Interest	\$ 176,688	\$ 189,630	\$ 118,144
Income taxes	\$ 4,742,351	\$ 8,600,895	\$ 14,007,578

See note 17 for additional supplemental information to consolidated statements of cash flows.

See notes to consolidated financial statements.



**JAKKS PACIFIC, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**Note 1—Principal industry**

JAKKS Pacific, Inc. (the Company) is engaged in the development, production and marketing of toys and related products, some of which are based on highly-recognized entertainment properties and character licenses. The Company commenced its primary business operations in July 1995 through the purchase of substantially all of the assets of a Hong Kong toy company. The Company markets its product lines domestically and internationally.

The Company was incorporated under the laws of the State of Delaware in January 1995.

**Note 2—Summary of significant accounting policies**

***Principles of consolidation***

The consolidated financial statements include accounts of the Company and its wholly-owned subsidiaries. In consolidation, all significant inter-company balances and transactions are eliminated.

***Cash and cash equivalents***

The Company considers all highly liquid assets, having an original maturity of less than three months, to be cash equivalents. The Company maintains its cash in bank deposits which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

***Use of estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual future results could differ from those estimates.

***Revenue recognition***

Revenue is recognized upon the shipment of goods to customers. Provisions for estimated defective products, markdowns and other allowances are made at the time of sale.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2001**

**Inventory**

Inventory, which includes the ex-factory cost of goods and in-bound freight, is valued at the lower of cost (first-in, first-out) or market and consists of the following:

	December 31,	
	2000	2001
Deposits	\$ 2,829,575	\$ 82,793
Raw materials	846,436	236,206
Finished goods	26,858,815	31,704,961
	<u>\$30,534,826</u>	<u>\$32,023,960</u>

**Marketable securities**

Marketable securities have been categorized as trading and as a result are stated at fair value, with unrealized holding gains and losses included in earnings. At December 31, 2000 and 2001, such gains and losses were not material.

**Fair value of financial instruments**

The Company's cash and cash equivalents, accounts receivable and notes payable represent financial instruments. The carrying value of these financial instruments is a reasonable approximation of fair value.

**Property and equipment**

Property and equipment are stated at cost and are being depreciated using the straight-line method over their estimated useful lives as follows:

Office equipment	5 years
Furniture and fixtures	5 - 7 years
Molds and tooling	2 - 4 years
Leasehold improvements	Shorter of length of lease or 10 years

**Advertising**

Production costs of commercials and programming are charged to operations in the year during which the production is first aired. The costs of other advertising, promotion and marketing programs are charged to operations in the year incurred. Advertising expense for the years ended December 31, 1999, 2000 and 2001, was approximately \$7,038,000, \$14,416,000, and \$11,026,000 respectively.

**Income taxes**

The Company does not file a consolidated return with its foreign subsidiaries. The Company files Federal and state returns and its foreign subsidiaries each file Hong Kong returns. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized as deductible

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**  
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temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

***Translation of foreign currencies***

Monetary assets and liabilities denominated in Hong Kong dollars or British Pounds Sterling are translated into United States dollars at the rate of exchange ruling at the balance sheet date. Transactions during the period are translated at the rates ruling at the dates of the transactions.

Profits and losses resulting from the above translation policy are recognized in the consolidated statements of operations.

***Goodwill and other intangible assets***

Goodwill represents the excess purchase price paid over the fair market value of the assets of acquired toy companies. Goodwill has been amortized over 30 years on a straight-line basis. Beginning in fiscal 2002, goodwill and certain intangible assets will be written down on an impairment basis where losses in value will be recorded when and as material impairment has occurred in the underlying assets. Accumulated amortization at December 31, 2000 and 2001 totaled \$3,569,811 and \$6,577,121, respectively.

The carrying value of goodwill is based on management's current assessment of recoverability. Management evaluates recoverability using both objective and subjective factors. Objective factors include management's best estimates of projected future earnings and cash flows and analysis of recent sales and earnings trends. Subjective factors include competitive analysis and the Company's strategic focus.

Intangible assets other than goodwill consist of product technology rights and trademarks. Intangible assets are amortized on a straight-line basis, over five to thirty years, the estimated economic lives of the related assets. Accumulated amortization as of December 31, 2000 and 2001 was \$2,490,926 and \$3,461,113, respectively.

***Stock split***

The Board of Directors approved a common stock dividend of 1/2 share for each share of common stock outstanding to effect a three-for-two stock split of the Company's common stock, which was paid on November 4, 1999. All common stock and common stock equivalent shares and per share amounts have been adjusted retroactively to give effect to the split.

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**Earnings per share**

The following table is a reconciliation of the weighted-average shares used in the computation of basic and diluted earnings per share for the periods presented:

	1999		
	Income	Weighted Average Shares	Per Share
Basic EPS			
Net income	\$21,969,849		
Preferred dividends declared/paid	(438,070)		
Income available to common stockholders	<u>21,531,779</u>	13,879,304	<u>\$1.55</u>
Effect of dilutive securities			
Options and warrants	—	1,088,179	
9% convertible debentures	116,867	466,556	
7% convertible preferred stock	437,500	405,640	
Diluted EPS			
Income available to common stockholders plus assumed exercises and conversions	<u>\$22,086,146</u>	<u>15,839,679</u>	<u>\$1.39</u>
	2000		
	Income	Weighted Average Shares	Per Share
Basic EPS			
Income available to common stockholders	\$28,637,395	19,059,544	<u>\$1.50</u>
Effect of dilutive securities			
Options and warrants	—	1,221,931	
Diluted EPS			
Income available to common stockholders plus assumed exercises	<u>\$28,637,395</u>	<u>20,281,475</u>	<u>\$1.41</u>
	2001		
	Income	Weighted Average Shares	Per Share
Basic EPS			
Income available to common stockholders	\$28,232,901	18,199,108	<u>\$1.55</u>
Effect of dilutive securities			
Options and warrants	—	1,210,817	
Diluted EPS			
Income available to common stockholders plus assumed exercises	<u>\$28,232,901</u>	<u>19,409,925</u>	<u>\$1.45</u>

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**Note 3—Business Segments**

JAKKS Pacific is a worldwide producer and marketer of children's toys and related products, principally engaged in the design, development, production and marketing of traditional toys, including boys action figures, vehicles and playsets, craft and activity products, writing instruments, compounds, girls toys, and infant and preschool toys. The Company's reportable segments are North America Toys, International and Other.

The North America Toys segment, which includes the United States and Canada, and the International toy segment, which includes sales to non-North American markets, include the design, development, production and marketing of children's toys and related products. The Company also has an additional segment classified as Other, which sells various products to the specialty markets in the United States.

Segment performance is measured at the operating income level. All sales are made to external customers, and general corporate expenses have been attributed to the North America Toy segment, which is a dominant segment. Segment assets are comprised of accounts receivable and inventories, net of applicable reserves and allowances.

The accounting policies of the segments are described in Note 2.

Results are not necessarily those that would be achieved were each segment an unaffiliated business enterprise. Information by segment and a reconciliation to reported amounts for the twelve months ended December 31, 1999, 2000 and 2001 are as follows:

	Year Ended December 31,		
	1999	2000	2001
<b>Net Sales</b>			
North America Toys	\$168,927,636	\$235,136,139	\$250,627,160
International	13,056,000	15,567,118	32,870,718
Other	1,701,488	1,584,686	811,143
	<u>\$183,685,124</u>	<u>\$252,287,943</u>	<u>\$284,309,021</u>
	-----	-----	-----
	Year Ended December 31,		
	1999	2000	2001
<b>Operating Income</b>			
North America Toys	\$22,926,043	\$19,109,540	\$25,827,227
International	1,771,897	1,265,141	3,387,340
Other	230,918	128,788	83,589
	<u>\$24,928,858</u>	<u>\$20,503,469</u>	<u>\$29,298,156</u>
	-----	-----	-----

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**  
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	December 31,	
	2000	2001
<b>Assets</b>		
North America Toys	\$72,313,667	\$74,852,907
International	4,787,505	9,817,247
Other	487,353	242,258
	<u>\$77,588,525</u>	<u>\$84,912,412</u>

#### Note 4 — Acquisitions and Joint Venture

The Company owns a fifty percent interest in a joint venture with a company that develops, publishes and distributes interactive entertainment software for the leading hardware game platforms in the home video game market. The joint venture has entered into a license agreement under which it acquired the exclusive worldwide right to publish video games on all hardware platforms. Our investment is accounted for using the cost method due to the financial and operating structure of the venture and our lack of control over the joint venture. The Company's basis consists primarily of organizational costs and recoupable advances. The joint venture agreement provides for the Company to receive guaranteed preferred returns through June 30, 2006, subject to an annual minimum payments of \$2,600,000 through December 31, 2003, at varying rates of the joint venture's net sales depending on the cumulative unit sales and platform of each particular game. For periods after June 30, 2006, the amount of the preferred return will be subject to renegotiation between the parties. The preferred return is accrued in the quarter in which the licensed games are sold and the preferred return is earned. Our joint venture partner retains the financial risk of the joint venture and is responsible for the day-to-day operations, including development, sales and distribution, for which they are entitled to any remaining profits. During 1999, 2000 and 2001, the Company earned \$3,604,487, \$15,905,860 and \$6,675,428, respectively, in profit from the joint venture.

In June 1999, the Company purchased all of the outstanding shares of Berk Corporation (Berk) for \$3,269,450 in cash paid at closing.

The assets acquired and liabilities assumed from Berk were as follows:

Cash	\$ 478,972
Accounts receivable	869,050
Inventory	549,720
Prepays and deposits	73,367
Property and equipment	31,186
Goodwill	4,365,208
Liabilities assumed	(3,098,053)
	<u>\$ 3,269,450</u>



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In October 1999, the Company acquired all of the stock of Flying Colors Toys, Inc. (Flying Colors) for \$52,879,182 in cash paid at closing. Contingent consideration includes an earn-out in an amount of up to \$4,500,000 in each of the three 12-month periods following the closing, if gross profits of Flying Colors branded products achieve certain prescribed levels in each of such periods. The maximum earn-out of \$4,500,000 was earned by the sellers in each of the earn-out periods ended September 30, 2000 and 2001. Of the \$4,500,000 earned in 2000, the amount of \$464,938 was deemed to be compensation and has been expensed in 2000. The remaining balance of \$4,035,062 and the 2001 earn-out has been recorded as goodwill.

The assets acquired and liabilities assumed from Flying Colors were as follows:

Cash	\$ 23,534
Accounts receivable, net of reserve of \$686,222	12,816,573
Inventory, net of reserve of \$2,774,017	11,052,983
Prepaid expenses	194,840
Property and equipment	1,943,025
Deferred income taxes	1,460,000
Non-compete agreement	1,000,000
Goodwill	32,081,192
Liabilities assumed	(7,692,965)
	<u>\$52,879,182</u>

In July 2000, the Company acquired all of the outstanding capital stock of Pentech International Inc. (Pentech) for an aggregate purchase price of approximately \$20.6 million, which was paid in cash on the closing of the transaction. In addition, the Company paid on the closing \$10.0 million to pay down certain indebtedness of Pentech, assumed liabilities of approximately \$25.5 million and incurred estimated legal and other acquisition costs of approximately \$1.2 million. Pentech designs, produces and markets licensed pens, markers, pencils, and other writing instruments, craft and activity kits, and related stationery products.

On December 27, 2001, the Company acquired all the outstanding stock of Kidz Biz Ltd., a United Kingdom company, and Kidz Biz Far East Limited, a Hong Kong corporation, for an aggregate purchase price of approximately \$12.4 million, which was paid by the issuance of 308,992 shares of the Company's common stock at a value of \$6.0 million and cash of \$6.4 million. The Company acquired operating assets of \$12.2 million and assumed liabilities of approximately \$13.2 million. Both the United Kingdom and Hong Kong based companies are distributors of toys and related products in the United Kingdom, Ireland and the Channel Islands.

The following unaudited pro forma information represents the Company's consolidated results of operations as if the acquisitions of Berk, Flying Colors and Pentech had occurred on January 1, 1999 and after giving effect to certain adjustments including the elimination of other income and expense items not attributable to on-going operations, interest and depreciation expense, and related tax effects. Such pro forma information does not purport to be indicative of operating results that

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would have been reported had the acquisitions of Berk, Flying Colors and Pentech occurred on January 1, 1999 or future operating results.

	Year Ended December 31,	
	1999	2000
Net Sales	\$278,745,264	\$291,578,787
Net income	\$ 22,196,794	\$ 24,390,573
Basic earnings per share	\$ 1.60	\$ 1.28
Weighted average shares outstanding	13,879,304	19,059,544
Diluted earnings per share	\$ 1.40	\$ 1.20
Weighted average shares and equivalents outstanding	15,839,679	20,281,475

**Note 5—Concentration of credit risk**

Financial instruments that subject the Company to concentration of credit risk are cash and cash equivalents, marketable securities and accounts receivables. Cash equivalents consist principally of short-term money market funds. These instruments are short-term in nature and bear minimal risk. To date, the Company has not experienced losses on these instruments.

The Company performs on-going credit evaluations of its customers' financial condition, but does not require collateral to support domestic customer accounts receivables. Most goods shipped FOB Hong Kong or China are sold on irrevocable letter of credit basis.

**Note 6—Accrued expenses**

Accrued expenses consist of the following:

	2000	2001
Bonuses	\$ 2,230,563	\$ 2,381,698
Royalties and sales commissions	3,713,634	4,787,099
Hong Kong subsidiaries accruals	3,886,757	6,193,354
Other	2,708,336	4,706,574
	\$12,539,290	\$18,068,725

**Note 7—Related party transactions**

A director of the Company is a partner in the law firm that acts as counsel to the Company. The Company incurred legal fees and expenses to the law firm in the amount of approximately \$1,037,000 in 1999, \$975,000 in 2000 and \$1,129,000 in 2001.

As of December 31, 2001, there were two notes receivable from officers totaling \$1,974,000 issued at interest rates of 6.5% each, with interest payable on each April 28 and October 28 of each year, and principal payable at a maturity date of April 28, 2003. Additionally, there is a third note

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receivable from an officer for \$250,000 issued at an interest rate of 7.0%, with interest and principal payable at a maturity date of May 12, 2002, except that all indebtedness under the loan will be forgiven if employment continues through such date.

**Note 8—Long-term debt**

Long-term debt consists of the following:

	2000	2001
Note Payable due in twenty-six quarterly payments with the final payment due April 1, 2004, with interest at 7% per annum	\$1,400,000	\$ —
Loan payable, due in sixty monthly payments with the final payment due December 4, 2006, with interest at 6.7% per annum	—	95,070
	<u>1,400,000</u>	<u>95,070</u>
Less current portion of long-term debt	400,000	22,560
	<u>1,000,000</u>	<u>\$72,510</u>

The following is a schedule of payments for the loan payable:

2002	\$22,560
2003	17,805
2004	19,036
2005	20,350
Thereafter	15,319
	<u>\$95,070</u>

**Note 9—Income taxes**

The provision differs from the expense that would result from applying Federal statutory rates to income before taxes because of the inclusion of a provision for state income taxes and the income of the Company's foreign subsidiaries is taxed at a rate of 16.5% applicable in Hong Kong. In addition, the provision includes deferred income taxes resulting from adjustments in the amount of temporary differences. Temporary differences arise primarily from differences in timing in the deduction of state income taxes and the use of the straight-line method of depreciation for financial reporting purposes and accelerated methods of depreciation for tax purposes.

The Company does not file a consolidated return with its foreign subsidiaries. The Company files Federal and state returns and its foreign subsidiaries file Hong Kong and United Kingdom

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returns. Income taxes reflected in the accompanying consolidated statements of operations are comprised of the following:

	1999	2000	2001
Federal	\$4,280,650	\$ 4,979,188	\$2,595,989
State and local	1,350,000	1,112,798	1,064,843
Foreign	1,834,065	5,161,994	5,336,377
	<u>7,464,715</u>	<u>11,253,980</u>	<u>8,997,209</u>
Deferred	869,129	442,983	800,000
	<u>\$8,333,844</u>	<u>\$11,696,963</u>	<u>\$9,797,209</u>
		2000	2001
Deferred tax assets resulting from deductible temporary differences from loss carry-forwards, noncurrent		\$ 351,761	\$ 351,761
Deferred tax liabilities resulting from taxable temporary differences, noncurrent		(1,808,578)	(2,608,578)
		<u>\$(1,456,817)</u>	<u>\$(2,256,817)</u>

The Company's management concluded that a deferred tax asset valuation allowance as of December 31, 2000 and 2001 was not necessary.

A reconciliation of the statutory United States Federal income tax rate to the Company's effective income tax rate is as follows:

	1999	2000	2001
Statutory income tax rate	35%	35%	35%
State and local income taxes, net of Federal income tax effect	4	3	3
Effect of temporary differences and Hong Kong's lower tax rate	(28)	(25)	(28)
Income taxes on foreign earnings at rates other than the United States Statutory rate not subject to United States income taxes	16	16	16
	<u>27%</u>	<u>29%</u>	<u>26%</u>

The components of income before provision for income taxes are as follows:

	1999	2000	2001
Domestic	\$13,105,423	\$ 8,480,038	4,677,721
Foreign	17,198,270	31,854,320	33,352,389
	<u>\$30,303,693</u>	<u>\$40,334,358</u>	<u>\$38,030,110</u>

#### Note 10—Credit Facility

On October 12, 2001, the Company entered into a Loan Agreement with a consortium of banks led by Bank of America, N.A. This agreement expires on October 12, 2004 and permits the Company to borrow (and maintain obligations under outstanding letters of credit) up to an

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aggregate of \$50,000,000. Available borrowings under the facility are determined by applying specified advance rates to eligible domestic accounts receivable and inventory.

The Company is required to not have any outstanding borrowings in excess of \$30.0 million for a period of at least 30 consecutive days during the first fiscal quarter of each year of the agreement.

This Credit facility is secured by a lien on substantially all of our assets and contains customary financial and non-financial covenants which limit the ability for us to incur additional indebtedness, pay dividends or make other distributions, sell assets and enter into certain mergers or acquisitions. Amounts outstanding under this credit facility bears interest at 0.25% plus the greater of the Prime Rate or Federal Funds Rate plus 0.5%, and is subject to change based on certain financial ratios. As of December 31, 2001, the Company has no outstanding borrowings.

**Note 11—Leases**

The Company leases office, warehouse and showroom facilities and certain equipment under operating leases. Rent expense for the years ended December 31, 1999, 2000 and 2001 totaled \$737,340, \$769,070, and \$2,495,390, respectively. The following is a schedule of minimum annual lease payments.

2002	\$ 3,157,600
2003	3,005,262
2004	2,997,047
2005	2,946,910
2006	2,884,663
Thereafter	1,729,557
	<hr/>
	\$16,721,039

**Note 12—Common stock and preferred stock**

The Company has 26,000,000 authorized shares of stock consisting of 25,000,000 shares of \$.001 par value common stock and 1,000,000 shares of \$.001 par value preferred stock.

During 2001, the Company issued 525,780 shares of common stock on exercise of options and warrants for a total of \$3,069,745 and 308,992 shares of common stock at a value of \$6,000,000 in connection with the Kidz Biz acquisition. As of December 31, 2001, 166,875 shares were reserved for issuance upon exercise of outstanding warrants granted in connection with a certain license agreement at an exercise price of \$6.67 per share.

During 2000, the Company issued 212,890 shares of common stock on exercise of options and warrants for a total of \$1,171,243. The Company repurchased 1,493,600 shares of common stock for a total of \$12,911,483.

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Warrant activity is summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding, December 31, 1998	952,500	\$6.02
Exercised	(434,368)	5.16
Canceled	(225,000)	6.67
	-----	-----
Outstanding, December 31, 1999	293,132	5.92
Exercised	(36,777)	5.79
	-----	-----
Outstanding, December 31, 2000	256,355	5.94
Exercised	(82,118)	4.48
Canceled	(7,362)	5.63
	-----	-----
Outstanding, December 31, 2001	166,875	\$6.67
	-----	-----

During 1999, 6,810,955 shares of the Company's stock were issued in two separate offerings for a total of \$117,792,115. Additionally, the Company issued 1,019,469 shares of common stock on the exercise of stock options and warrants for a total of \$4,749,126 and 1,565,218 shares of common stock upon the conversion of convertible debentures totaling \$5,600,250. Certain common stockholders received an aggregate of \$570 in lieu of fractional shares relating to the 1999 common stock dividend.

In 1998, the Company sold 1,000 shares of its Series A 7% cumulative convertible preferred stock to two investors for \$4,731,152, net of issuance costs. In 1999, the holders of these shares converted such shares into 837,987 shares of common stock. Preferred stockholders received cumulative cash dividends of \$437,500 in 1999.

### Note 13—Commitments

The Company has entered into various license agreements whereby the Company may use certain characters and properties in conjunction with its products. Such license agreements call for royalties to be paid at 1% to 12% of net sales with minimum guarantees and advance payments. Additionally, under one such license, the Company has committed to spend 12.5% of related net sales, not to exceed \$1,000,000, on advertising per year.

Future annual minimum royalty guarantees as of December 31, 2001 are as follows:

2002	\$ 3,208,095
2003	1,287,500
2004	1,096,000
2005	972,500
2006	970,000
Thereafter	3,999,000
	-----
	\$11,533,095
	-----

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**  
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**Note 14—Stock option plan**

Under its Third Amended and Restated 1995 Stock Option Plan (the Plan), the Company has reserved 3,725,000 shares of its common stock for issuance upon exercise of options granted under the Plan. Included in the reserved shares are 450,000 shares relating to the 2001 increase approved by the Company's stockholders. Under the Plan, employees (including officers), non-employee directors and independent consultants may be granted options to purchase shares of common stock. In 1999, 2000 and 2001 the fair value of each employee option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used: risk-free rate of interest of 6%; dividend yield of 0%; and expected lives of five years.

As of December 31, 2001, 470,426 shares were available for future grant. Additional shares may become available to the extent that options presently outstanding under the Plan terminate or expire unexercised. Stock option activity pursuant to the Plan is summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding, December 31, 1998	1,365,300	\$ 5.86
Granted	1,198,125	16.07
Exercised	(374,608)	5.20
Canceled	(50,499)	5.50
Outstanding, December 31, 1999	2,138,318	11.70
Granted	2,036,497	10.49
Exercised	(91,177)	6.88
Canceled	(1,880,898)	15.82
Outstanding, December 31, 2000	2,202,740	7.15
Granted	724,125	15.73
Exercised	(427,536)	6.21
Canceled	(185,773)	7.98
Outstanding, December 31, 2001	2,313,556	\$ 9.97

Stock option activity outside of the Plan is summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding, December 31, 1998	311,587	\$2.98
Exercised	(210,525)	2.64
Outstanding, December 31, 1999	101,062	3.69
Exercised	(84,936)	3.96
Outstanding, December 31, 2000	16,126	2.24
Exercised	(16,126)	2.24
Outstanding, December 31, 2001	—	—

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The weighted average fair value of options granted to employees in 1999, 2000 and 2001 was \$9.12, \$7.23 and \$16.24 per share, respectively.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2001:

Option Price Range	Outstanding			Exercisable	
	Number of Shares	Weighted Average Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
\$3.00 – \$26.00	2,313,556	4.11 years	\$9.97	849,613	\$7.08

Had the compensation cost for the Company's Plan been determined on a basis consistent with SFAS No. 123, the Company's net income and earnings per share (EPS) for 1999, 2000 and 2001 would approximate the pro forma amounts below, which are not indicative of future amounts:

	Years Ended December 31,					
	1999		2000		2001	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
SFAS No. 123 charge, net of tax	\$ —	\$ 1,178,025	\$ —	\$ 1,806,108	\$ —	\$ 1,498,495
Net income	21,969,849	20,791,824	28,637,395	26,831,287	28,232,901	26,734,406
Basic EPS	1.55	1.47	1.50	1.41	1.55	1.47
Diluted EPS	\$ 1.39	\$ 1.32	\$ 1.41	\$ 1.32	\$ 1.45	\$ 1.38

**Note 15—Employee Pension Plan**

The Company sponsors for its U.S. employees, a defined contribution plan under Section 401(k) of the Internal Revenue Code. The plan provides that employees may defer up to 15% of annual compensation, and that the Company will make a matching contribution equal to 50% of each employee's deferral, up to 5% of compensation. Employees may be eligible to participate in the Plan after they have completed three months of service. The Company may also make discretionary contributions to the Plan each year. Participants are immediately 100% vested in their salary reduction amounts contributed to the Plan, and vesting of the Company contributions is based on years of service, as follows:

Years of Service	Cumulative Percent Vested
1	20%
2	40
3	60
4	80
5	100

As of December 31, 2001, the Plan had not been "qualified" under the provisions of the Internal Revenue Code, and for the year then ended, the Company contributed \$227,390 in matching contributions to the Plan.



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**Note 16—Major customers and international sales**

Net sales to major customers were approximately as follows:

1999		2000		2001	
Amount	Percentage	Amount	Percentage	Amount	Percentage
\$ 45,270,000	24.6%	\$ 43,505,000	17.2%	\$ 44,646,000	15.7%
27,684,000	15.1	36,321,000	14.4	36,024,000	12.7
22,739,000	12.4	30,481,000	12.1	34,319,000	12.1
17,938,000	9.8	27,338,000	10.8	20,972,000	7.4
15,229,000	8.3	21,875,000	8.7	19,425,000	6.8
<u>\$128,860,000</u>	<u>70.2%</u>	<u>\$159,520,000</u>	<u>63.2%</u>	<u>\$155,386,000</u>	<u>54.7%</u>

Net sales to international customers totaled approximately \$13,056,000, \$22,495,000 and \$39,992,000 in 1999, 2000 and 2001, respectively.

**Note 17—Supplemental information to consolidated statements of cash flows**

In 2001, 308,992 shares of common stock valued at \$6,000,000 were issued in connection with the acquisition of Kidz Biz (note 4).

In 1999, the holders of the Company's 9% convertible debentures converted all \$6,000,000 principal amount of the debentures into 1,565,218 shares of the Company's common stock. Additionally, all 1,000 outstanding shares of 7% cumulative convertible preferred stock with a total stockholders' equity value of \$4,731,152 were converted into an aggregate of 837,987 shares of the Company's common stock.

**Note 18—Selected Quarterly Financial Data (Unaudited)**

Selected unaudited quarterly financial data for the years 2000 and 2001 are summarized below:

	2000				2001			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share data)							
Net sales	\$50,782	\$50,578	\$91,838	\$59,090	\$59,962	\$70,141	\$92,768	\$61,438
Gross profit	\$20,104	\$21,748	\$37,672	\$22,883	\$24,468	\$32,609	\$39,056	\$23,953
Income (loss) from operations	\$ 3,552	\$ 6,095	\$11,201	\$ (345)	\$ 7,573	\$ 9,723	\$14,562	\$ (1,410)
Income before income taxes	\$ 9,715	\$ 8,877	\$13,615	\$ 8,127	\$ 8,480	\$ 9,478	\$15,250	\$ 4,822
Net income	\$ 6,603	\$ 6,237	\$ 9,769	\$ 6,028	\$ 6,021	\$ 6,873	\$10,949	\$ 4,390
Basic earnings per share	\$ 0.34	\$ 0.32	\$ 0.50	\$ 0.33	\$ 0.33	\$ 0.38	\$ 0.60	\$ 0.24
Weighted average shares outstanding	19,290	19,379	19,389	18,178	18,008	18,048	18,273	18,463
Diluted earnings per share	\$ 0.32	\$ 0.31	\$ 0.48	\$ 0.32	\$ 0.32	\$ 0.36	\$ 0.56	\$ 0.22
Weighted average shares and equivalents outstanding	20,374	20,371	20,330	18,621	18,920	19,259	19,586	19,763

**Note 19—Recent Accounting Pronouncements**

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 is effective for business combinations initiated after June 30, 2001. SFAS 141 requires that all business combinations

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2001**

completed after its adoption be accounted for under the purchase method of accounting and establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS 142 will be effective for the Company on January 1, 2002 and primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. Upon adoption of SFAS 142, goodwill and other intangible assets will no longer be amortized and will be tested for impairment at least annually at the reporting unit level.

Based on current levels of amortization expense, the Company estimates that the elimination of amortization expense will positively impact net income by approximately \$2.9 million, or approximately \$0.15 per common share (diluted), on an annual basis.

**Note 20—Litigation**

On or about March 26, 2001, Rose Art Industries, Inc. and Licensing International, Ltd. commenced an action against the Company in the United States District Court for the District of New Jersey in which they allege the Company's willful infringement of a patent owned by Licensing International and licensed to Rose Art through the Company's production and sale of Zyrofoam modeling compound. The plaintiffs seek injunctive relief, monetary damages in an unspecified amount, together with interest thereon, and reasonable attorneys' fees. The Company believes that their claims are without merit and intends vigorously to defend against their action. At this state in these proceedings, the Company is unable to predict the likely outcome of the action or its impact on its business, financial condition or results of operations. The Company is a party to, and certain property is the subject of, various pending claims and legal proceedings that routinely arise in the ordinary course of business, but the Company does not believe that any of these claims or proceedings will have a material effect on its business, financial condition or results of operations.

**Note 21—Subsequent Event**

On March 11, 2002, the Company acquired approximately 8,100,000 shares of common stock of Toymax International, Inc. (Toymax), representing approximately 64% of its outstanding shares. Consideration paid for the stock was approximately \$3.00 in cash and .0798 shares of the Company's common stock per share of Toymax International, Inc. stock, for an aggregate purchase price of approximately \$24,300,000 million in cash and 646,384 shares of the Company's common stock. The second phase of the acquisition is expected to be completed by the end of the second quarter of 2002, when the Company will purchase the remaining 4,100,000 outstanding shares of Toymax in a merger transaction. Consideration to be paid will be \$3.00 in cash and .0798 shares of the Company's common stock, subject to adjustment based on the average closing price of the Company's common stock for a 10-day period prior to the closing date of the merger.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS  
YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

Allowances are deducted from the assets to which they apply, except for sales returns and allowances.

	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Year ended December 31, 1999:					
Allowance for:					
Uncollectible accounts	\$ 133,986	\$ 1,287,208	\$ 686,222	\$ 220,042	\$ 1,887,374
Reserve for potential product obsolescence	464,133	2,775,340	—	296,867	2,942,606
Reserve for sales returns and allowances	5,341,517	17,036,875	334,464	\$ 7,394,855	15,318,001
	<u>\$ 5,939,636</u>	<u>\$21,099,423</u>	<u>\$1,020,686</u>	<u>\$ 7,911,764</u>	<u>\$20,147,981</u>
Year ended December 31, 2000:					
Allowance for:					
Uncollectible accounts	\$ 1,887,374	\$ 2,270,611	\$2,773,744(a)	\$ 3,920,027	\$ 3,011,702
Reserve for potential product obsolescence	2,942,606	1,318,730	4,095,771(b)	1,035,470	7,321,637
Reserve for sales returns and allowances	15,318,001	17,296,039	1,360,000(c)	27,420,809	6,553,231
	<u>\$20,147,981</u>	<u>\$20,885,380</u>	<u>\$8,229,515</u>	<u>\$32,376,306</u>	<u>\$16,886,570</u>
Year ended December 31, 2001:					
Allowance for:					
Uncollectible accounts	\$ 3,011,702	\$ 6,320,940	\$ —	\$ 2,059,145	\$ 7,273,497
Reserve for potential product obsolescence	7,321,637	(1,001,543)	—	3,729,995	2,590,099
Reserve for sales returns and allowances	6,553,231	25,190,259	—	26,790,611	4,952,879
	<u>\$16,886,570</u>	<u>\$30,509,656</u>	<u>\$ —</u>	<u>\$32,579,751</u>	<u>\$14,816,475</u>

(a) Obligations assumed in conjunction with the acquisitions of Flying Colors and Pentech.

(b) Fair market value adjustment for inventory acquired in connection with the acquisition of Pentech.

(c) Obligation assumed in conjunction with the acquisition of Pentech.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant**

**Directors and Executive Officers**

Our directors and executive officers are as follows:

<u>Name</u>	<u>Age</u>	<u>Positions with the Company</u>
Jack Friedman	62	Chairman and Chief Executive Officer
Stephen G. Berman	36	Chief Operating Officer, President, Secretary and Director
Joel M. Bennett	40	Executive Vice President and Chief Financial Officer
Michael L. Bianco, Jr.	44	Executive Vice President and Chief Merchandising Officer
David C. Blatte	37	Director
Robert E. Glick	55	Director
Michael G. Miller	53	Director
Murray L. Skala	55	Director

*Jack Friedman* has been our Chairman and Chief Executive Officer since co-founding JAKKS with Mr. Berman in January 1995. Until December 31, 1998, he was also our President. From January 1989 until January 1995, Mr. Friedman was Chief Executive Officer, President and a director of THQ. From 1970 to 1989, Mr. Friedman was President and Chief Operating Officer of LJN Toys, Ltd., a toy and software company. After LJN was acquired by MCA/ Universal, Inc. in 1986, Mr. Friedman continued as President until his departure in late 1988.

*Stephen G. Berman* has been our Chief Operating Officer and Secretary and one of our directors since co-founding JAKKS with Mr. Friedman in January 1995. Since January 1, 1999, he has also served as our President. From our inception until December 31, 1998, Mr. Berman was also our Executive Vice President. From October 1991 to August 1995, Mr. Berman was a Vice President and Managing Director of THQ International, Inc., a subsidiary of THQ. From 1988 to 1991, he was President and an owner of Balanced Approach, Inc., a distributor of personal fitness products and services.

*Joel M. Bennett* joined us in September 1995 as Chief Financial Officer and was given the additional title of Executive Vice President in May 2000. From August 1993 to September 1995, he served in several financial management capacities at Time Warner Entertainment Company, L.P., including as Controller of Warner Brothers Consumer Products Worldwide Merchandising and Interactive Entertainment. From June 1991 to August 1993, Mr. Bennett was Vice President and Chief Financial Officer of TTI Technologies, Inc., a direct-mail computer hardware and software distribution company. From 1986 to June 1991, Mr. Bennett held various financial management positions at The Walt Disney Company, including Senior Manager of Finance for its international television syndication and production division. Mr. Bennett holds a Master of Business Administration degree and is a Certified Public Accountant.

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*Michael L. Bianco, Jr.* has been an Executive Vice President since July 2001 and was given the additional title of Chief Merchandising Officer in February 2001. Until July 2001, he had served as a Senior Vice President of our Flying Colors division since joining us in October 1999, when we acquired Flying Colors Toys, where he had been President and a principal shareholder since July 1996. From 1994 to 1996, Mr. Bianco served as Executive Vice President of Rose Art Industries, Inc., a manufacturer of craft and activity products, and from 1976 to 1993, he served in various capacities, including Vice President of Merchandising, at toy retailer Kay Bee Toys.

*David C. Blatte* has been one of our directors since January 2001. From January 1993 to May 2000, Mr. Blatte was a Senior Vice President in the specialty retail group of the investment banking division of Donaldson, Lufkin and Jenrette Securities Corporation. Since May 2000, Mr. Blatte has been a principal in Catterton Partners, a private equity fund. Mr. Blatte is a director of Case Logic, Inc., a privately-held consumer products company.

*Robert E. Glick* has been one of our directors since October 1996. For more than 20 years, Mr. Glick has been an officer, director and principal stockholder in a number of privately-held companies which manufacture and market women's apparel.

*Michael G. Miller* has been one of our directors since February 1996. From 1979 until May 1998, Mr. Miller was President and a director of several privately-held affiliated companies, including a list brokerage and list management consulting firm, a database management consulting firm, and a direct mail graphic and creative design firm. Mr. Miller's interests in such companies were sold in May 1998. Since 1991, he has been President of an advertising company.

*Murray L. Skala* has been one of our directors since October 1995. Since 1976, Mr. Skala has been a partner of the law firm Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP, our general counsel. Mr. Skala is a director of Traffix, Inc., a publicly-held company in the business of telecommunications services and entertainment.

Our directors hold office until the next annual meeting of stockholders and until their successors are elected and qualified.

### **Committees of the Board of Directors**

We have an Audit Committee, a Compensation Committee and a Stock Option Committee. The Board does not have a Nominating Committee and performs the functions of a Nominating Committee itself.

*Audit Committee.* The primary functions of the Audit Committee are to select or to recommend to our Board the selection of outside auditors; to monitor our relationships with our outside auditors and their interaction with our management in order to ensure their independence and objectivity; to review, and to assess the scope and quality of, our outside auditor's services, including the audit of our annual financial statements; to review our financial management and accounting procedures; and to review our financial statements with our management and outside auditors. Messrs. Blatte, Glick and Miller are the current members of the Audit Committee.

*Compensation Committee.* The functions of the Compensation Committee are to make recommendations to the Board regarding compensation of management employees and to administer plans and programs relating to employee benefits, incentives and compensation, other than our Third Amended and Restated 1995 Stock Option Plan (the "Option Plan"). Messrs. Friedman, Miller and Skala are the current members of the Compensation Committee.

*Stock Option Committee.* The function of the Stock Option Committee is to determine the recipients of and the size of awards granted under the Option Plan. Messrs. Glick and Miller, both of whom are non-employee directors, are the current members of the Stock Option Committee.

**Section 16(a) Beneficial Ownership Reporting Compliance**

To the best of our knowledge, all Forms 3, 4 or 5 required to be filed pursuant to Section 16(a) of the Exchange Act during or with respect to the fiscal year ended December 31, 2001 were filed on a timely basis.

**Item 11. Executive Compensation**

The following table sets forth the compensation we paid for our fiscal years ended December 31, 1999, 2000 and 2001 to our Chief Executive Officer and to each of our other executive officers whose compensation exceeded \$100,000 on an annual basis (collectively, the “Named Officers”).

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation			Long-Term Awards	
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Awards (\$)	Options (#)
Jack Friedman	2001	821,000	1,706,390	—	—	175,000
Chairman and Chief	2000	771,000	1,613,401	—	—	207,254(1)
Executive Officer	1999	521,000	1,750,000	—	—	232,500
Stephen G. Berman	2001	796,000	1,706,390	—	—	175,000
Chief Operating Officer,	2000	746,000	1,613,401	—	—	346,024(2)
President and Secretary	1999	496,000	1,750,000	—	—	394,500
Joel M. Bennett	2001	247,500	160,000	—	—	20,000
Executive Vice President and	2000	225,000	140,000	—	—	211,700(3)
Chief Financial Officer	1999	155,000	130,000	—	—	42,500
Michael L. Bianco, Jr.	2001	550,000	450,000	—	—	150,000
Executive Vice President and Chief	2000	450,000	300,000	—	—	75,263
Merchandising Officer	1999	75,000	—	—	—	15,000

- (1) Includes options to purchase 182,254 shares issued in replacement of options to purchase 257,500 shares pursuant to a reset in the price of those options.
- (2) Includes options to purchase 321,024 shares issued in replacement of options to purchase 419,500 shares pursuant to a reset in the price of those options.
- (3) Includes options to purchase 110,874 shares issued in replacement of options to purchase 143,326 shares pursuant to a reset in the price of those options.

• *Employment Agreements*

On July 1, 1999, we entered into 10-year employment agreements with Jack Friedman and Stephen G. Berman, respectively, pursuant to which Mr. Friedman serves as our Chairman and Chief Executive Officer and Mr. Berman serves as our President and Chief Operating Officer. Mr. Friedman’s annual base salary in 2002 is \$846,000 and Mr. Berman’s is \$821,000. Their annual base salaries are subject to annual increases in an amount, not less than \$25,000, determined by our Board of Directors. Each of them is also entitled to receive an annual bonus equal to 4% of our pre-tax income, but not more than \$2,000,000, if our pre-tax income is at least \$2,000,000.

On May 8, 2000, we entered into an employment agreement with Joel M. Bennett pursuant to which Mr. Bennett serves as an Executive Vice President and our Chief Financial Officer during a four-year term from January 1, 2000 to December 31, 2003. Mr. Bennett's annual base salary in 2002 is \$272,500. His annual base salary is subject to annual increases in an amount determined by our Board of Directors. He is also entitled to receive an annual bonus equal to the product of his base salary and the percentage year-over-year increase in our pre-tax income, but not less than \$75,000 nor more than his base salary.

On July 12, 2001, we amended and restated our employment agreement with Michael L. Bianco, Jr. The new agreement provides for Mr. Bianco to serve as an Executive Vice President during a term ending on December 31, 2007. Mr. Bianco's annual base salary in 2002 is \$575,000. His annual base salary is subject to annual increases, in an amount not less than \$25,000, determined by our Board of Directors. He is also entitled to receive an annual bonus equal to 2% of our pre-tax income, but not more than \$2,000,000, if our pre-tax income is at least \$2,000,000. In February 2002, we appointed Mr. Bianco to serve as our Chief Merchandising Officer.

If we terminate Mr. Friedman's, Mr. Berman's, Mr. Bianco's or Mr. Bennett's employment other than "for cause" or if he resigns because of our material breach of the employment agreement or because we cause a material change in his employment, we are required to make a lump-sum severance payment in an amount equal to his base salary and bonus during the balance of the term of the employment agreement, based on his then applicable annual base salary and bonus. In the event of the termination of his employment under certain circumstances after a "Change of Control" (as defined in the employment agreement), we are required to make to him a one-time payment of an amount equal to 2.99 times his "base amount" determined in accordance with the applicable provisions of the Internal Revenue Code.

• *Third Amended and Restated 1995 Stock Option Plan*

Our Third Amended and Restated 1995 Stock Option Plan (the "Option Plan") was originally adopted and approved by the stockholders and directors in July 1998 and amended in August 1999. Options to purchase, in the aggregate, up to 3,725,000 shares of our common stock may be granted under the Option Plan. The Option Plan allows us to grant options that are intended to qualify as incentive stock options ("Incentive Stock Options") within the meaning of Section 422 of the Internal Revenue Code or as options that are not intended to meet the requirements of such section ("Nonstatutory Stock Options"). Under the Option Plan, Incentive Stock Options may only be granted to our employees (including officers), while Nonstatutory Stock Options may be granted to employees (including officers), non-employee directors, consultants or advisors.

The Option Plan is administered by the Stock Option Committee, whose members are non-employee directors chosen by our Board. Subject to the restrictions prescribed in the Option Plan, this committee has discretionary authority to select the persons to whom, the number of shares for which, the times and the exercise price at which options will be granted.

Options granted to an employee expire immediately upon the termination of employment voluntarily by such employee or for cause. Employee options may be exercised up to one year after the termination of employment due to death or disability, or up to three months after termination for any other reason.

Upon the occurrence of a merger, consolidation or other reorganization, or a sale of all or substantially all of the assets, of JAKKS, or a transaction giving any person the right to elect a

majority of our Board, as a result of which a distribution of cash, securities or other property is to be made to our stockholders, the options held by any consultant or any person who shall have been an employee for at least one year will vest and become immediately exercisable by such holder, even if such options would not otherwise then be exercisable under any applicable vesting schedule or other condition to the exercise thereof.

Incentive Stock Options must have an exercise price greater than or equal to the fair market value of the shares underlying the option on the date of grant (or, if granted to a holder of 10% or more of our common stock, an exercise price of at least 110% of the underlying shares' fair market value on the date of grant). The maximum exercise period of Incentive Stock Options is 10 years from the date of grant (or five years in the case of a holder of 10% or more of our common stock). The aggregate fair market value (determined at the date the option is granted) of shares with respect to which Incentive Stock Options are exercisable for the first time by the holder of the option during any calendar year may not exceed \$100,000. If that amount exceeds \$100,000, our Board or the Stock Option Committee may designate those shares that will be treated as Nonstatutory Stock Options.

The Option Plan provides for the inclusion in any grant of options to one of our employees of a provision requiring the optionee, for a period of one year after the optionee's employment is terminated, not to disclose certain of our confidential information and, under certain circumstances, not to compete with us or be employed by an individual or entity that competes with us.

As of March 29, 2002, options to purchase 969,787 shares of our common stock under the Option Plan have been exercised, and options to purchase 2,427,287 shares of our common stock under the Option Plan remain outstanding. All the shares issuable upon exercise of outstanding options granted under the Option Plan are currently registered under the Securities Act.

The following table sets forth certain information regarding options granted to the Named Officers in 2001.

### Option/ SAR Grants in Last Fiscal Year

#### Individual Grants

Name	Number of Securities Underlying Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Fiscal Year(1)	Exercise or Base Price (\$/Share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Appreciation for Option Term	
					5%(\$)	10%(\$)
Jack Friedman	175,000	26.6%	16.25	7/11/07	967,146	2,194,133
Stephen G. Berman	175,000	26.6%	16.25	7/11/07	967,146	2,194,133
Joel M. Bennett	20,000	3.0%	16.25	7/11/07	110,531	250,758
Michael L. Bianco, Jr.	150,000	22.8%	16.25	7/11/07	828,983	1,880,685

(1) Options to purchase a total of 658,500 shares of our common stock were granted to our employees, including the Named Officers, during 2001.



The following table sets forth certain information regarding options exercised and exercisable during 2001, and the value of options held as of December 31, 2001 by the Named Officers:

**Aggregated Option/SAR Exercises in Last Fiscal Year  
and Fiscal Year End Option/SAR Values**

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year End		Value of Unexercised In-the-Money Options/SARs at Fiscal Year End(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Jack Friedman	—	—	426,835	305,419	5,360,010	1,916,890
Stephen G. Berman	145,000	1,851,111	198,481	402,557	2,430,946	2,992,694
Joel M. Bennett	40,489	520,692	1,330	109,057	14,730	1,040,306
Michael L. Bianco, Jr.	12,756	162,781	1,466	220,813	16,236	1,189,254

- (1) The difference between (x) the product of the number of exercised options and the average sale price per share of the common stock sold on the exercise dates and (y) the aggregate exercise price of such options.
- (2) The difference between (x) the product of the number of unexercised options and \$18.95 (the closing sale price of the common stock on December 31, 2001) and (y) the aggregate exercise price of such options.

• *Compensation of Directors*

Directors currently receive an annual cash stipend in the amount of \$10,000 for serving on the Board, and are reimbursed for reasonable expenses incurred in attending meetings. In addition, our Option Plan provides for each newly elected non-employee director to receive at the commencement of his term an option to purchase 37,500 shares of our common stock at their then current fair market value, and for grants to our non-employee directors on January 1 and July 1 of each year of an option to purchase 7,500 shares of our common stock at their then current fair market value. Options granted to a non-employee director expire upon the termination of the director's services for cause, but may be exercised at any time during a one-year period after such person ceases to serve as a director for any other reason.

• *Compensation Committee Interlocks and Insider Participation*

Mr. Jack Friedman, our Chairman and Chief Executive Officer, is the only member of our Compensation Committee who is or formerly was an officer or employee of JAKKS or any of its subsidiaries. Our Board believes that Mr. Friedman's assessment of the performance and contribution of our other employees and his views on the appropriate manner and level of compensation for their services are essential to the Compensation Committee's ability to evaluate and make determinations with respect to compensation matters. However, Mr. Friedman does not participate in any deliberations or determinations by the Compensation Committee or our Board with respect to his own compensation.

None of our executive officers has served as a director or member of a compensation committee (or other board committee performing equivalent functions) of any other entity, one of whose executive officers served as a director or a member of our Compensation Committee.

**Item 12. Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth certain information as of March 29, 2002 with respect to the beneficial ownership of our common stock by (1) each person known by us to own beneficially more than 5% of the outstanding shares of our common stock, (2) each of our directors, (3) each Named Officer, and (4) all our directors and executive officers as a group.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(2)	Percent of Outstanding Shares
Kern Capital Management LLC (1)	1,183,800	6.0
Jack Friedman	589,702(3)	2.9
Stephen G. Berman	219,294(4)	1.1
Joel M. Bennett	27,780(5)	*
Michael L. Bianco, Jr.	47,119(6)	*
David C. Blatte	30,000(7)	*
Robert E. Glick	56,519(8)	*
Michael G. Miller	47,144(9)	*
Murray L. Skala	88,218(10)	*
All directors and executive officers as a group (8 persons)	1,092,829(11)	5.3

\* Less than 1% of our outstanding shares.

- (1) Mr. Robert E. Kern, Jr. and Mr. David G. Kern (“Messrs. Kern”), principals and controlling members of Kern Capital Management LLC (“KCM”), have also reported beneficial ownership of these shares. The address of KCM and Messrs. Kern is 114 West 47th Street, Suite 1926, New York, New York 10036. All the information presented in this Item with respect to these beneficial owners was extracted solely from their Schedule 13G jointly filed on February 14, 2002.
- (2) Exercises sole voting power and sole investment power with respect to such shares.
- (3) Includes 12,947 shares held in trusts for the benefit of children of Mr. Friedman. Also includes 426,833 shares which Mr. Friedman may purchase upon the exercise of certain stock options.
- (4) Represents shares which Mr. Berman may purchase upon the exercise of certain stock options.
- (5) Includes 530 shares which Mr. Bennett may purchase upon the exercise of certain stock options.
- (6) Includes 7,069 shares which Mr. Bianco may purchase upon the exercise of certain stock options.
- (7) Represents shares which Mr. Blatte may purchase upon the exercise of certain stock options.
- (8) Represents shares which Mr. Glick may purchase upon the exercise of certain stock options.
- (9) Represents shares which Mr. Miller may purchase upon the exercise of certain stock options.
- (10) Includes 75,271 shares which Mr. Skala may purchase upon the exercise of certain stock options and 12,947 shares held by Mr. Skala as trustee under trusts for the benefit of children of Mr. Friedman.
- (11) Includes 12,947 shares held in trusts for the benefit of children of Mr. Friedman and an aggregate of 862,660 shares which the directors and executive officers may purchase upon the exercise of certain stock options.

### **Item 13. *Certain Relationships and Related Transactions***

One of our directors, Murray L. Skala, is a partner in the law firm of Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP, which has performed, and is expected to continue to perform, legal services for us. In 2001, we incurred approximately \$1,129,000 for legal fees and reimbursable expenses payable to that firm.

In April 2000, we loaned \$1,500,000 to each of Jack Friedman and Stephen G. Berman. The entire principal amount of each loan is due on April 28, 2003 and, until repaid, interest thereon is payable semi-annually at the rate of 6.5% per annum. Mr. Berman's indebtedness to us under his loan is secured by a deed of trust on certain real property. As of March 29, 2002, the outstanding principal balances of Mr. Friedman's and Mr. Berman's loans were \$975,000 and \$999,000, respectively. In May 2000, we loaned \$250,000 to Joel M. Bennett. The entire principal amount of his loan, together with interest accrued thereon at the rate of 7.0% per annum, is due on May 12, 2002, except that, if he continues to be employed by us through such date, we will forgive all of his indebtedness to us under his loan. As of March 29, 2002, accrued interest to date on Mr. Bennett's loan was \$33,040. All three loans were made to assist our executive officers in meeting certain personal financial obligations.

Michael L. Bianco, Jr., an Executive Vice President and our Chief Merchandising Officer, was one of the selling shareholders from whom we acquired Flying Colors Toys in October 1999. In connection with that acquisition, we agreed to pay an earn-out, in an amount not less than \$2.5 million nor more than \$4.5 million, in each of the three twelve-month periods following the closing if the gross profit of *Flying Colors* products achieve certain targeted levels during these periods. In 2001, we paid \$1,850,000 to Mr. Bianco on account of the earn-out for the twelve-month period ended September 30, 2001.

## **PART IV**

### **Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements (included in Item 8):

- Independent Auditors' Report
- Consolidated Balance Sheets as of December 31, 2000 and 2001
- Consolidated Statements of Operations for the years ended December 31, 1999, 2000 and 2001
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 1999, 2000 and 2001
- Consolidated Statements of Cash Flows for the years ended December 31, 1999, 2000 and 2001
- Notes to Consolidated Financial Statements

(2) Financial Statement Schedules (included in Item 8)

- Schedule II — Valuation and Qualifying Accounts

### (3) Exhibits

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company (1)
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3.1.2	Certificate of Designation and Preferences of Series A Cumulative Convertible Preferred Stock of the Company (4)
3.1.3	Certificate of Elimination of All Shares of 4% Redeemable Convertible Preferred Stock of the Company (5)
3.1.4	Certificate of Amendment of Restated Certificate of Incorporation of the Company (11)
3.2	By-Laws of the Company (1)
3.2.1	Amendment to By-Laws of the Company (2)
10.1	Third Amended and Restated 1995 Stock Option Plan (7)(*)
10.1A	1999 Amendment to Third Amended and Restated 1995 Stock Option Plan (12)(*)
10.1B	2000 Amendment to Third Amended and Restated 1995 Stock Option Plan (15)(*)
10.1C	2001 Amendment to Third Amended and Restated 1995 Stock Option Plan (26)(*)
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10.6.2	Amendment to License Agreement with Titan Sports, Inc. dated January 21, 1997 (3)
10.6.3	Amendment to License Agreement with Titan Sports, Inc. dated December 3, 1997 (6)
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10.6.5	Amendment to License Agreement with Titan Sports, Inc. dated June 24, 1998 (9)
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10.8	Amended and Restated Employment Agreement dated July 12, 2001 between the Company and Michael Bianco (27)(*)
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10.19	Term Note dated May 12, 2000 in the principal amount of \$250,000 made by Joel M. Bennett payable to the Company (22)
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10.31	Security Agreement dated as of October 12, 2001 among the Grantors named therein, Bank of America, N.A., as Administrative Agent, and the Lenders referred to therein (36)

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10.33	Registration Rights Agreement dated as of December 27, 2001 among the Company, David S. Lipman, Marilyn Lipman and John Nimno (50)
10.34	Share Transfer Agreement dated as of December 30, 2001 between the Company and JAKKS Pacific (HK) Limited (50)
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10.46(A)	Amendment to Lease for Toymax's offices at 125E Bethpage Road, Plainview, New York(48)
10.47	Toymax Amended and Restated Stock Option Plan(49)
21	Subsidiaries of the Company(50)
23	Consent of Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation, Los Angeles, California(50)

- (1) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (Reg. No. 333-2048-LA), effective May 1, 1996, and incorporated herein by reference.
- (2) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (Reg. No. 333-22583), effective May 1, 1997, and incorporated herein by reference.
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- (17) Incorporated by reference to exhibit 2.2 of the Company's Current Report on Form 8-K, filed August 11, 2000.
- (18) Incorporated by reference to exhibit 2.3 of the Company's Current Report on Form 8-K, filed August 11, 2000.
- (19) Incorporated by reference to exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (20) Incorporated by reference to exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (21) Incorporated by reference to exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (22) Incorporated by reference to exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (23) Incorporated by reference to exhibit 10.5 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.

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- (24) Incorporated by reference to exhibit 10.16 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (25) Incorporated by reference to exhibit 10.58 of the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2000, filed April 2, 2001.
- (26) Incorporated by reference to Appendix B to the Company's Schedule 14A Proxy Statement, filed June 11, 2001.
- (27) Incorporated by reference to exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, filed November 14, 2001.
- (28) Incorporated by reference to exhibit 15(A) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (29) Incorporated by reference to exhibit 15(B) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (30) Incorporated by reference to exhibit 15(C) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (31) Incorporated by reference to exhibit 15(D) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (32) Incorporated by reference to exhibit 15(E) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (33) Incorporated by reference to exhibit 15(F) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (34) Incorporated by reference to exhibit 15(G) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (35) Incorporated by reference to exhibit 15(H) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (36) Incorporated by reference to exhibit 15(I) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (37) Incorporated by reference to exhibit 1 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (38) Incorporated by reference to exhibit 2 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (39) Incorporated by reference to exhibit 3 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (40) Incorporated by reference to exhibit 4 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (41) Incorporated by reference to exhibit 5 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (42) Incorporated by reference to exhibit 6 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (43) Incorporated by reference to exhibit 7 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (44) Incorporated by reference to exhibit 8 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.



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- (45) Incorporated by reference to exhibit 9 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (46) Incorporated by reference to exhibit 10 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (47) Incorporated by reference to Toymax's Registration Statement on Form S-1 (No. 333-54522).
- (48) Incorporated by reference to Toymax's Annual Report on Form 10-K for the year ended March 31, 1999.
- (49) Incorporated by reference to Toymax's Registration Statement on Form S-8 (No. 333-54522).
- (50) Filed herewith.
- (\*) Management contract or compensatory plan, contract or arrangement.

(b) *Reports on Form 8-K*

We did not file any Current Reports on Form 8-K during the fourth quarter of 2001.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 1, 2002

JAKKS PACIFIC, INC.

By: /s/ JACK FRIEDMAN

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Jack Friedman  
*Chairman and  
Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> /s/ JACK FRIEDMAN		
Jack Friedman	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	April 1, 2002
<hr/> /s/ JOEL M. BENNETT		
Joel M. Bennett	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	April 1, 2002
<hr/> /s/ STEPHEN G. BERMAN		
Stephen G. Berman	Director	April 1, 2002
<hr/> /s/ DAVID C. BLATTE		
David C. Blatte	Director	April 1, 2002
<hr/> /s/ ROBERT E. GLICK		
Robert E. Glick	Director	April 1, 2002
<hr/> /s/ MICHAEL G. MILLER		
Michael G. Miller	Director	April 1, 2002
<hr/> /s/ MURRAY L. SKALA		
Murray L. Skala	Director	April 1, 2002

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- (22) Incorporated by reference to exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (23) Incorporated by reference to exhibit 10.5 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.

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- (24) Incorporated by reference to exhibit 10.16 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
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- (26) Incorporated by reference to Appendix B to the Company's Schedule 14A Proxy Statement, filed June 11, 2001.
- (27) Incorporated by reference to exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, filed November 14, 2001.
- (28) Incorporated by reference to exhibit 15(A) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (29) Incorporated by reference to exhibit 15(B) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (30) Incorporated by reference to exhibit 15(C) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (31) Incorporated by reference to exhibit 15(D) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (32) Incorporated by reference to exhibit 15(E) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (33) Incorporated by reference to exhibit 15(F) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (34) Incorporated by reference to exhibit 15(G) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (35) Incorporated by reference to exhibit 15(H) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (36) Incorporated by reference to exhibit 15(I) of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (37) Incorporated by reference to exhibit 1 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (38) Incorporated by reference to exhibit 2 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (39) Incorporated by reference to exhibit 3 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (40) Incorporated by reference to exhibit 4 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (41) Incorporated by reference to exhibit 5 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (42) Incorporated by reference to exhibit 6 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (43) Incorporated by reference to exhibit 7 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (44) Incorporated by reference to exhibit 8 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.

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- (45) Incorporated by reference to exhibit 9 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (46) Incorporated by reference to exhibit 10 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.
- (47) Incorporated by reference to Toymax's Registration Statement on Form S-1 (No. 333-54522).
- (48) Incorporated by reference to Toymax's Annual Report on Form 10-K for the year ended March 31, 1999.
- (49) Incorporated by reference to Toymax's Registration Statement on Form S-8 (No. 333-54522).
- (50) Filed herewith.
- (\*) Management contract or compensatory plan, contract or arrangement.

(b) *Reports on Form 8-K*

We did not file any Current Reports on Form 8-K during the fourth quarter of 2001.



EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT dated as of December 27, 2001 by and between Kidz Biz Limited (the "Company") and David S. Lipman ("Executive").

W I T N E S S E T H :  
- - - - -

WHEREAS, concurrently with the effectiveness of this Agreement, JAKKS Pacific, Inc., a Delaware (U.S.) corporation ("JAKKS") is acquiring (the "Acquisition") all of the outstanding capital shares of the Company and its affiliate, Kidz Biz Far East Limited ("Far East" and, together with the Company, the "Companies"); and

WHEREAS, Executive was, until the closing of the Acquisition, an executive officer and shareholder, and has extensive experience and expertise with respect to the business and operations, of the Companies; and

WHEREAS, the Company desires to employ Executive on the terms and subject to the conditions hereinafter set forth, and Executive desires so to be employed;

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the Company and Executive agree as follows:

1. Offices and Duties. The Company hereby employs Executive during the Term (as hereinafter defined) to perform such executive and supervisory duties on behalf of the Companies as the Board of Directors of the Company or JAKKS or a senior executive officer of JAKKS may from time to time direct; provided that such duties are substantially within the scope of the duties performed by Executive for the Companies immediately prior to the date hereof. The Board of Directors of either of the Companies may elect or designate Executive to serve in such other corporate offices of either of the Companies or a subsidiary thereof as they may from time to time deem necessary, proper or advisable. Executive hereby accepts such employment and agrees that throughout the Term he shall faithfully, diligently and to the best of his ability, in furtherance of the business of the Companies, perform the duties assigned to him or incidental to the offices assumed by him pursuant to this Section. Executive shall devote substantially all of his business time and attention to the business and affairs of the Companies, but Executive shall not be required to devote any minimum amount of time or report or perform his duties hereunder on a fixed or periodic basis, and Executive may engage or participate in such other activities incidental to any other business venture or enterprise as do not materially interfere with or compromise his ability to perform his duties hereunder. Executive shall at all times be subject to the direction and control of the Board of Directors of the Companies and observe and comply with such rules, regulations, policies and practices as the Board of Directors of the Company may from time to time establish.

2. Term. The employment of Executive hereunder shall commence on the date hereof and continue for a term ending on December 31, 2005, subject to earlier termination upon the terms and conditions provided elsewhere herein (the "Term"). As used herein, "Termination Date" means the last day of the Term.

3. Compensation.

(a) As compensation for his services hereunder, the Company shall pay to Executive during the Term:

(A) a base salary at the rate of Pound Sterling305,000 per annum during the first twelve months of the Term and thereafter at the rate of Pound Sterling315,000 per annum (the "Base Salary"), such Base Salary, inclusive of any directors' fees payable to the Executive under the articles of association of the Company or any Associated Company (and any such fees as the Executive shall receive shall be paid to the Company), to be paid in substantially equal installments no less often than monthly; and

(B) such additional incentive or bonus compensation as the Board of Directors of the Companies may from time to time determine.

The Executive's Base Salary shall be reviewed annually by the Board of Directors of the Company and may be increased in the discretion of the Board of Directors.

(b) JAKKS will examine the feasibility of establishing a stock option plan, on terms similar to JAKKS' Third Amended and Restated Stock Option Plan, providing for the award of options to acquire shares of common stock of JAKKS to United Kingdom employees of the Company which is approved by the United Kingdom Inland Revenue. If JAKKS determines to establish such a plan, JAKKS shall grant to Executive options to acquire 50,000 shares of JAKKS' common stock or, in the alternative, grant options to acquire such shares pursuant to JAKKS' Third Amended and Restated Stock Option Plan, in either event consistent with the term, vesting schedule and exercise price set forth in Annex I to this Agreement.

(c) In addition to his Base Salary and other compensation provided herein, Executive shall be entitled to participate, to the extent he is eligible under the terms and conditions thereof, in any stock, stock option or other equity participation plan and any profit-sharing, pension, retirement, insurance, medical service or other employee benefit plan and to receive any other benefits or perquisites generally available to the executive officers of JAKKS pursuant to any employment policy or practice, which may be in effect from time to time during the Term. The Company shall be under no obligation hereunder to institute or to continue any such employee benefit plan or employment policy or practice, except that the Executive shall be entitled to, or receive, on the same terms, all benefits provided to him by the Company prior to the date of this Agreement and which are reflected in the Company's Management Accounts for the period from January 1, 2001 through September 30, 2001, and the Company's Financial Statements for the period ended on December 31, 2000 delivered to JAKKS under the Stock Purchase Agreement, including, without limitation, medical insurance for Executive and Executive's family, pension contributions and payment of the running expenses and insurance for Executive's car.

(d) During the Term, Executive shall not be entitled to additional compensation for serving as a director or officer of either of the Companies (or any subsidiary thereof) to which he is

elected or appointed; provided that such duties are substantially within the scope of the duties required to be performed by Executive for the Companies immediately prior to the date hereof. Throughout any period or periods during which he shall serve as a director of either of the Companies (or such subsidiary), Executive shall be entitled to directors' fees in accordance with the policies and practices of the Companies (or such subsidiary) then in effect.

(e) Executive and the Company confirm (for the purposes of the Working Time Regulations 1998) that, on account of the nature of Executive's job, the duration of the Executive's working time is not measured or pre-determined or can be determined by Executive.

4. Expense Allowance.

The Company shall pay directly, or advance funds to Executive or reimburse Executive for, all expenses reasonably incurred by him in connection with the performance of his duties hereunder and the business of the Company, upon the submission to the Company of itemized expense reports, receipts or vouchers in accordance with its then customary policies and practices.

5. Location. Except for routine travel and temporary accommodation reasonably required to perform his services hereunder and travel as may reasonably be requested by JAKKS to its principal office in the United States (currently in Malibu, California), Executive shall not be required to perform his services hereunder at any location other than the principal executive office of the Company, which office shall be located throughout the Term at Clockhouse, 4 Dorking Road, Epsom, Surrey, England, or, if the lease of the premises where such office is maintained is terminated, at a location within a distance of 30 miles from such location on the date hereof, or at such other office or site to which Executive may, in his sole discretion, consent; nor shall he be required to relocate his principal residence to, or otherwise to reside at, any location specified by the Company.

6. Office. The Company shall provide Executive with suitable office space, furnishings and equipment, secretarial and clerical services and such other facilities and office support as are reasonably necessary for the performance of his services hereunder.

7. Vacation. Executive shall be entitled to four weeks paid vacation during each year of his employment hereunder, such vacation to be taken at such time or times as shall be agreed upon by Executive and the Company. Vacation time shall be cumulative from year to year, except that Executive shall not be entitled to take more than six weeks vacation during any consecutive 12-month period during the Term.

8. Key-Man Insurance. JAKKS or the Company shall have the right from time to time to purchase, increase, modify or terminate insurance policies on the life of Executive for the benefit of JAKKS or the Company in such amounts as JAKKS or the Company may determine in its sole discretion. In connection therewith, Executive shall, at such time or times and at such place or places as JAKKS or the Company may reasonably direct, submit himself to such physical examinations and execute and deliver such documents as JAKKS or the Company may deem necessary or appropriate.

9. Trade Secrets. Executive shall hold in a fiduciary capacity for the benefit of the Company all confidential or proprietary information relating to or concerned with JAKKS' or its

operations, business and affairs, and he shall not, at any time hereafter, use or disclose any such information to any person other than to the Company or its designees or except as may otherwise be required in connection with the business and affairs of the Company.

#### 10. Intellectual Property.

(a) Any invention, design, process, system, procedure, improvement, development or discovery conceived, developed, created or made by Executive, alone or with others, during the Term and applicable to the business of the Company, whether or not patentable or registrable, shall become the sole and exclusive property of the Company.

(b) Executive shall disclose the same promptly and completely to the Company and shall, during the Term or thereafter, (i) execute all documents requested by the Company for vesting in the Company the entire right, title and interest in and to the same, (ii) execute all documents requested by the Company for filing and procuring such applications for patents, trademarks, service marks or copyrights as the Company, in its sole discretion, may desire to prosecute, and (iii) give the Company all assistance it may reasonably require, including the giving of testimony in any Proceeding (as hereinafter defined), in order to obtain, maintain and protect the Company's right therein and thereto; provided that the Company shall bear the entire cost and expense of such assistance, including without limitation paying the Executive reasonable compensation for any time or effort expended by him in connection with such assistance after the Termination Date.

(c) For the purpose of this Section 10, "the Business" means any business carried on by the Company or any Associated Company at the date of termination of the employment and with which the Executive has been concerned to a material extent in the twelve (12) months immediately preceding such termination; and references to "Associated Companies" shall only be reference to Associated Companies in respect of which the Executive has carried out material duties in the period of twelve (12) months prior to the date of termination of his employment.

(d) The Company acknowledges that no provision in this Agreement is intended to require assignment of any of Executive's rights in an invention if no equipment, supplies, facilities, or trade secret information of the Company was used, and the invention was developed in the Executive's own time, unless the invention relates to the business of the Company, or the invention results from any work performed by Executive for the Company.

#### 11. No Competition.

(a) During the Term, and unless his employment terminates pursuant to Section 14 or by action of the Company other than pursuant to Section 13, for a further period of one (1) year thereafter, Executive shall not, directly or indirectly:

(i) own, control, manage, operate, participate or invest in, or otherwise be connected with, in any manner, any business activity, venture or enterprise which is engaged in any Business in which either of the Companies (or Associated Company other than JAKKS and its other subsidiaries other than the Company or Far East) engages at any time during the Term within England (in the case of the Company) or Hong Kong (in the case of Far East) or any other country within which the relevant Company actively conducts business during the Term; provided, however, that Executive may invest his funds in securities of an issuer engaged in such business if the securities of such issuer

are listed for trading on a recognized investment exchange (as defined by Section 285 of the Financial Services and Markets Act 2000) or actively traded in an over-the-counter market and Executive's holdings therein represent less than one percent (1%) of the total number of shares or principal amount of the securities of such issuer outstanding, and provided further, that Executive shall not be limited in the number or amount of JAKKS securities that he may own; or

(ii) for himself or on behalf of any other person, employ or engage any Person who at the time shall have been within the preceding 12-month period an employee of either of the Companies (or any Associated Company) other than by public solicitation generally made, contact any supplier, customer or employee of either of the Companies (or such Associated Company) for the purpose of soliciting or diverting any supplier, customer or employee from the Companies (or such Associated Company).

(b) Executive acknowledges that the provisions of this Section, and the period of time and geographic scope and type of restrictions on his activities set forth herein, are reasonable and necessary for the protection of the Companies. Notwithstanding the foregoing, if (i) the geographic scope of the restriction set forth in this Section 11 is determined to be unreasonable then the scope of the restriction shall be narrowed to that geographic area deemed to be reasonable under all of the relevant facts and circumstances, or (ii) the duration of the restriction is determined to be unreasonable then the duration of the restriction shall be reduced to such period as is deemed to be reasonable under all of the relevant facts and circumstances.

12. Termination Upon Death or Disability. Executive's employment hereunder shall terminate immediately upon his death. In the event that Executive is unable to perform his duties hereunder by reason of any disability or incapacity (due to any physical or mental injury, illness or defect) for an aggregate of 90 days in any consecutive 12-month period, the Company shall have the right to terminate Executive's employment hereunder within 60 days after the 90th day of his disability or incapacity by giving Executive notice to such effect at least 30 days prior to the date of termination set forth in such notice, and on such date such employment shall terminate; provided that the Company shall not terminate the Executive's employment (except for redundancy or summarily for gross misconduct) under this Clause if the effect of it would be to deprive the Executive of benefit under any disability policy provided to Executive as part of the benefits referred to in paragraph 3(b).

13. Termination for Cause.

(a) In addition to any other rights or remedies provided by law or in this Agreement, the Company may terminate Executive's employment under this Agreement if:

(i) Executive is convicted of, or enters a plea of guilty or nolo contendere (which plea is not withdrawn prior to its approval by the court) to, a criminal offense, except minor road traffic offenses; or

(ii) the Company's Board of Directors determines, after due inquiry, that Executive has:

(A) committed fraud against, or embezzled or misappropriated funds or other assets of, either of the Companies (or any subsidiary thereof);

(B) violated, or caused either of the Companies (or any subsidiary thereof) or any officer, employee or other agent thereof, or any other Person to violate, any material law, regulation or ordinance, which violation has or would reasonably be expected to have a significant detrimental effect on JAKKS or either of the Companies, or any material rule, regulation, policy or practice established by the Board of Directors of the Company;

(C) on a persistent or recurring basis, (A) failed properly to perform his duties hereunder or (B) acted in a manner detrimental to, or adverse to the interests of, either the Companies; or

(D) violated, or failed to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by Executive hereunder.

(b) The Company may effect such termination for cause by giving Executive notice to such effect, setting forth in reasonable detail the factual basis for such termination, at least 20 days, or any statutory minimum notice period, whichever is the shorter, prior to the date of termination set forth therein; provided however that Executive may avoid such termination if Executive, prior to the date of termination set forth in such notice, cures or explains to the reasonable satisfaction of the Company's Board of Directors the factual basis for termination set forth therein.

(c) In making any determination pursuant to Section 13(a) as to the occurrence of any act or event described in clauses (A) to (D) of paragraph (ii) thereof (each, a "For Cause Event"), each of the following shall constitute convincing evidence of such occurrence:

(i) if Executive is made a party to, or target of, any Proceeding arising under or relating to any For Cause Event, Executive's knowing failure to defend against such Proceeding or to answer any complaint filed against him therein, or to deny any claim, charge, averment or allegation thereof asserting or based upon the occurrence of a For Cause Event;

(ii) any judgment, award, order, decree or other adjudication or ruling in any such Proceeding finding or based upon the occurrence of a For Cause Event; or

(iii) any settlement or compromise of, or consent decree issued in, any such Proceeding in which Executive expressly admits the occurrence of a For Cause Event;

provided that none of the foregoing shall be dispositive or create an irrebuttable presumption of the occurrence of such For Cause Event; and provided further that the Company's Board of Directors may rely on any other factor or event as convincing evidence of the occurrence of a For Cause Event.

14. Termination by Executive for Good Reason. In addition to any other rights or remedies provided by law or in this Agreement, Executive may terminate his employment hereunder if (a) the Company violates, or fails to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by it hereunder or, (b) as a result of any action or failure to act by either of the Companies or JAKKS, there is a material change in the nature or scope of the duties, obligations, rights or powers of Executive's employment, or (c) relocation without Executive's consent from the location set forth in Section 5 hereof, by giving the Company notice to such effect, setting forth in reasonable detail the factual basis for such termination, at least 20 days prior to the date of termination

set forth therein; provided however that the Company may avoid such termination if it, prior to the date of termination set forth in such notice, cures or explains to the reasonable satisfaction of Executive the factual basis for termination set forth therein. The termination by Executive of his employment pursuant to this Section 14 shall not constitute or be deemed to constitute for any purpose a "voluntary resignation" of his employment.

15. Compensation upon Termination.

(a) Upon termination of Executive's employment hereunder, he shall be entitled to receive, in any case, any compensation or other amount due to him pursuant to Section 3 or 4 in respect of his employment prior to the Termination Date, and from and after the Termination Date, except as otherwise provided in Section 15(b), the Company shall have no further obligation to Executive hereunder. Any amount payable to Executive pursuant to this Section 15(a) upon termination of his employment hereunder shall be paid promptly, and in any event within 30 days, after the Termination Date.

(b) If Executive terminates his employment hereunder for Good Reason pursuant to Section 14 or if the Company terminates his employment hereunder other than upon his disability or incapacity pursuant to Section 12 and other than for cause pursuant to Section 13, the Company shall make to Executive payments at the times and in the amounts provided herein for the payment of his Base Salary and provide for continuing medical insurance coverage during the period beginning on the day after the Termination Date and ending on December 31, 2005, offset by any amount earned by Executive as compensation for services he performs for any other Person during such period.

(c) If Executive shall die prior to Executive's receipt of all payments required under this Agreement, the Company shall pay Executive's designated beneficiary or, if there is no designated beneficiary, his estate all such amounts that would have otherwise been payable to Executive under this Agreement as of the date of his death.

16. Other Consequences of Termination.

(a) Upon the termination of his employment (for whatever reason and howsoever arising) the Executive shall:

(i) at the request of the Board immediately resign without claim for compensation from office as a director of the Company and any Associated Company and from any other office held by him in the Company or any Associated Company (but without prejudice to any claim for damages for breach of this Agreement) and in the event of his failure to do so the Company is hereby irrevocably authorised to appoint some person in his name and on his behalf to sign and deliver such resignations to the Board; and

(ii) immediately repay all outstanding debts or loans due to the Company or any Associated Company and the Company is hereby authorised to deduct from any wages (as defined by Section 27 of the Employment Rights Act 1996) of the Executive a sum in repayment of all or any part of any such debts or loans.

(b) The removal of the Executive from the office of director of the Company at a general meeting of the Company, or the failure of the Company in general meeting to re-elect the

Executive as a director of the Company (if he shall be obliged to retire pursuant to the articles of association of the Company), shall terminate the Executive's employment under this Agreement and such termination shall be without prejudice to any claim which the Executive may have for damages for breach of this Agreement provided that the Company was not entitled at the time of such removal or failure to terminate his employment pursuant to Section 13.

17. Statutory Particulars.

(a) The Executive's period of continuous employment commenced on \_\_\_\_\_.

(b) There is no formal disciplinary procedure in relation to the Executive's employment. The Executive shall be expected to maintain the highest standards of integrity and behavior.

(c) If the Executive is not satisfied with any disciplinary decision taken in relation to him, he may apply in writing within 14 days of that decision to the Board whose decision shall be final.

(d) If the Executive has any grievance in relation to his employment he may raise it in writing with the Board whose decision shall be final.

(e) There are no collective agreements applicable to the Executive's employment.

(f) This Clause 17 is not intended to be of contractual effect.

18. Limitation of Authority. Except as expressly provided herein, no provision hereof shall be deemed to authorize or empower either party hereto to act on behalf of, obligate or bind the other party hereto.

19. Notices. Any Notice or demand required or permitted to be given or made hereunder to or upon any Party hereto shall be deemed to have been duly given or made for all purposes if in writing and (i) if sent by messenger or Federal Express or internationally recognized courier service, or by priority overnight delivery between any two points within the U.S. or any two points within the U.K., on the business day next following the date such Notice or demand was delivered, or (ii) if sent by priority overnight delivery between any point within the U.S. and any point outside of the U.S., or between any point within the U.K. and any point outside of the U.K., or between any two points outside of the U.S. or the U.K., three (3) business days next following the date such Notice or demand was delivered; or (iii) if sent by mail, three (3) business days after deposit in the mails, if mailed by certified or registered mail (return receipt requested) between any two points within the U.S. or any two points within the U.K., and seven (7) business days if mailed by certified or registered mail (return receipt requested) between any point within the U.S. and any point outside of the U.S., or between any point within the U.K. and any point outside of the U.K., or between any two points outside of the U.S. or the U.K., or (iv) if sent by telegram, telecopy (confirmed to the sender), telex or similar electronic means, the business day next following the date such notice or demand was so transmitted, provided that a written copy thereof is sent on the same day by postage-paid first-class mail, to such Party at the following address:



if to the Company: Kidz Biz Limited  
Clockhouse  
Epsom, Surrey KT18 7LX  
England

and to: JAKKS Pacific, Inc.  
22619 Pacific Coast Highway  
Malibu, California 90265  
Attn: President  
Fax: (310) 317-8527

with a copy to: Feder, Kaszovitz, Isaacson,  
Weber, Skala, Bass & Rhine LLP  
750 Lexington Avenue  
New York, New York 10022-1200 U.S.  
Attn: Geoffrey A. Bass, Esq.  
Fax: (212) 888-7776

to Executive at: David S. Lipman  
Castilian House  
The Ridge  
Epsom, Surrey KT21 1BS  
United Kingdom  
Fax:

with a copy to: Altheimer & Gray  
10 South Wacker Drive  
Chicago, Illinois 60606-7482 U.S.  
Attn: Jonathan Baird, Esq  
Fax: 312-715-4800

and to: Altheimer & Gray  
7 Bishopsgate  
London EC2N 3AR  
Fax: 020-7786-0000  
Attn: Dean Harper, Esq.

or such other address as any Party hereto may at any time, or from time to time, direct by Notice given to the other Parties in accordance with this Section.

20. Amendment. Except as otherwise provided herein, no amendment of this Agreement shall be valid or effective, unless in writing and signed by or on behalf of the parties hereto.

21. Waiver. No course of dealing or omission or delay on the part of either party hereto in asserting or exercising any right hereunder shall constitute or operate as a waiver of any such right. No waiver of any provision hereof shall be effective, unless in writing and signed by or on behalf of the party to be charged therewith. No waiver shall be deemed a continuing waiver or waiver in respect of any other or subsequent breach or default, unless expressly so stated in writing.

22. Governing Law. This Agreement shall be governed by, and interpreted and enforced in accordance with, the laws of England, without regard to principles of choice of law or conflict of laws.

23. Jurisdiction. Each of the parties hereto hereby irrevocably consents and submits to the jurisdiction of the courts of England in connection with any Proceeding arising out of or relating to this Agreement or the transactions contemplated hereby, waives any objection to venue in the courts of England and agrees that service of any summons, complaint, notice or other process relating to such proceeding may be effected in the manner provided by clause (a) (ii) of Section 19.

24. Remedies. In the event of any actual or prospective breach or default under this Agreement by either party hereto, the other party shall be entitled to equitable relief, including remedies in the nature of rescission, injunction and specific performance. All remedies hereunder are cumulative and not exclusive, and nothing herein shall be deemed to prohibit or limit either party from pursuing any other remedy or relief available at law or in equity for such actual or prospective breach or default, including the recovery of damages; provided that, except as provided in Section 15 and except with respect to a breach by Executive of his obligations pursuant to Sections 9, 10 and 11, no party hereto shall be liable under this Agreement for lost profits or consequential damages.

25. Severability. The provisions hereof are severable and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable in any respect by a court of competent jurisdiction, the remaining provisions hereof shall not be affected, but shall, subject to the discretion of such court, remain in full force and effect, and any invalid or unenforceable provision shall be deemed, without further action on the part of the parties hereto, amended and limited to the extent necessary to render the same valid and enforceable. 26. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and which together shall constitute one and the same agreement.

27. Assignment. This Agreement, and each right, interest and obligation hereunder, may not be assigned by either party hereto without the prior written consent of the other party hereto, and any purported assignment without such consent shall be void and without effect, except that this Agreement shall be assigned to, and assumed by, any Person with or into which the Company merges or consolidates, or which acquires all or substantially all of its assets, or which otherwise succeeds to and continues the Company's business substantially as an entirety. Except as otherwise expressly provided herein or required by law, Executive shall not have any power of anticipation, assignment or alienation of any payments required to be made to him hereunder, and no other Person may acquire any right or interest in any thereof by reason of any purported sale, assignment or other disposition thereof, whether voluntary or involuntary, any claim in a bankruptcy or other insolvency Proceeding against Executive, or any other ruling, judgment, order, writ or decree.

28. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement is not intended,

and shall not be deemed, to create or confer any right or interest for the benefit of any Person not a party hereto.

29. Titles and Captions. The titles and captions of the Sections of this Agreement are for convenience of reference only and do not in any way define or interpret the intent of the parties or modify or otherwise affect any of the provisions hereof.

30. Grammatical Conventions. Whenever the context so requires, each pronoun or verb used herein shall be construed in the singular or the plural sense and each capitalized term defined herein and each pronoun used herein shall be construed in the masculine, feminine or neuter sense.

31. References. The terms "herein," "hereto," "hereof," "hereby," and "hereunder," and other terms of similar import, refer to this Agreement as a whole, and not to any Section or other part hereof.

32. No Presumptions. Each party hereto acknowledges that it has had an opportunity to consult with counsel and has participated in the preparation of this Agreement. No party hereto is entitled to any presumption with respect to the interpretation of any provision hereof or the resolution of any alleged ambiguity herein based on any claim that the other party hereto drafted or controlled the drafting of this Agreement.

33. Certain Definitions. As used herein:

(a) "Person" includes without limitation a natural person, corporation, joint stock company, limited liability company, partnership, joint venture, association, trust, government or governmental authority, agency or instrumentality, or any group of the foregoing acting in concert.

(b) A "Proceeding" is any suit, action, arbitration, audit, investigation or other proceeding before or by any court, magistrate, arbitration panel or other tribunal, or any governmental agency, authority or instrumentality of competent jurisdiction.

(c) "Associated Company" means any company which is a holding company or a subsidiary of the Company or as subsidiary of the Company's holding company and "holding company" and "subsidiary" shall have the meanings given by s.736 Companies Act 1985 or as amended from time to time.

(d) "Board" means the Board of Directors for the time being of the Company, including any duly appointed committee thereof, or the directors present at a meeting of the directors of the Company at which a quorum is present, but excluding the Executive.

(e) "Group" means the Company and the Associated Companies.

(f) "Intellectual Property" means letters, patent trademarks, service marks, designs, copyrights, utility models, design rights or applications for registration of any of the foregoing and the right to apply for them in any part of the world, inventions, drawings, computer programs, confidential information, know-how and rights of like nature, arising or subsisting anywhere in the world in relation to all of the foregoing, whether registered or unregistered.

Other capitalized terms not defined herein are used herein as defined in the Stock Purchase Agreement dated as of the date hereof relating to the Acquisition.

34. Set Off. The Company shall be entitled without notice to the Executive at any time during the Executive's employment to set off and/or make deductions from the Executive's salary or from any other sums due to the Executive from the Company or any Associated Company in respect of any overpayment of any kind made to the Executive or in respect of any debt or other sum due from him.

35. Third Party Beneficiary. A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

36. Entire Agreement. This Agreement embodies the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes any prior agreement, commitment or arrangement relating thereto.

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the day and year first above written.

THE COMPANY:

KIDZ BIZ LIMITED

By: /s/ STEPHEN G. BERMAN

-----  
Name: Stephen G. Berman  
Title: Director

EXECUTIVE:

/s/ DAVID S. LIPMAN

-----  
David S. Lipman

Exercise Price: closing sale price as reported by United States Nasdaq National  
Market on the date of grant

Term: 6 years from grant date

Vesting Schedule: 12,500 shares after 1st anniversary of the date of grant  
12,500 shares after 2nd anniversary of the date of grant  
12,500 shares after 3rd anniversary of the date of grant  
12,500 shares after 4th anniversary of the date of grant

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT is entered into by and among JAKKS Pacific, Inc., a corporation organized under the law of the state of Delaware, U.S. ("JAKKS Pacific"), and the shareholders of KIDZ BIZ LIMITED, a private limited company organized under the laws of England ("Kidz Biz UK"), KIDZ BIZ FAR EAST LIMITED, a Hong Kong private limited company ("Far East"), listed on Schedule I (the "Shareholders"). Kidz Biz UK and Far East are sometimes collectively referred to as the "Kidz Biz Companies". JAKKS Pacific and the Shareholders are sometimes collectively referred to as the "Parties."

W I T N E S S E T H :  
- - - - -

WHEREAS, JAKKS Pacific desires to purchase all of the outstanding capital stock of the Kidz Biz Companies, all of which is owned by some or all of the Shareholders, and the Shareholders desire to sell all such capital stock to JAKKS Pacific on the terms and subject to the conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the Parties hereto hereby agree as follows:

1. Certain Definitions.

1.1 "Pound Sterling" means English pounds.

1.2 "Acquisition" means the purchase of the Shares and the related transactions contemplated by this Agreement and the other Acquisition Documents.

1.3 "Acquisition Documents" means this Agreement, the Agent Agreement, and each agreement to be executed and delivered at the Closing pursuant to this Agreement, including the Employment Agreement.

1.4 "Affiliate" of a Person means another Person directly or indirectly controlling, controlled by, or under common control with, such Person; for this purpose, "control" of a Person means the power (whether or not exercised) to direct the policies, operations or activities of such Person by virtue of the

ownership of, or right to vote or direct the manner of voting of, securities of such Person, or pursuant to agreement or Law or otherwise.

1.5 "Agent" means David Lipman, as agent of the Shareholders pursuant to the Agent Agreement.

1.6 "Agent Agreement" means the Shareholders' Agent Agreement of even date herewith among the Shareholders and the Agent.

1.7 "Agreement" means this Stock Purchase Agreement, as amended or supplemented.

1.8 "Assets" means the assets of each of the Kidz Biz Companies, as the context may require.

1.9 "Awareness" or "Knowledge" when used in this Agreement in reference to any Shareholder refers to the actual awareness or knowledge of such Shareholder as of the date of this Agreement, without further investigation and without giving effect to imputed knowledge.

1.10 "Blue Sky Laws" means the laws of any state of the U.S., the District of Columbia, or any territory or other jurisdiction in the U.S. governing the purchase and/or sale of securities in such jurisdiction.

1.11 "Business" means the business operated by Kidz Biz UK or Far East or both, as the context so requires, as of the date hereof and all products designed, developed, marketed and otherwise dealt with and traded in by Kidz Biz UK or Far East on and prior to the Closing Date and all business activities incidental thereto.

1.12 "Claim" means any claims, demands, suits, damages, or causes of action.

1.13 "Claim for Tax" means any letter, document, assessment or receipt of any Tax Governmental Authority from which it appears that a Kidz Biz Company may be placed under liability to any Tax.

1.14 "Clockhouse Lease" refers to a lease by Kidz Biz UK of offices located at The Clockhouse, 4 Dorking Road, Epsom, Surrey, England, in the form of the draft provided to JAKKS Pacific by the Shareholders.

1.15 "Closing" means the closing of the Acquisition as provided in Article 6.

1.16 "Closing Date" means the date of the Closing, which is also the date of this Agreement.

1.17 "Closing Purchase Price" means the portion of the Purchase Price payable or deliverable at the Closing consisting of US\$6,400,000.00 in cash and the JAKKS Pacific Shares, allocated between the Kidz Biz Companies as set forth in Section 6.3.

1.18 "Commission" means the U.S. Securities and Exchange Commission.

1.19 "Common Stock" means the shares of common stock, par value \$.001 per share, of JAKKS Pacific.

1.20 "Consent" means any material approval, authorization, consent or ratification by or on behalf of any Person that is not a Party to this Agreement, or any waiver of, or exemption or variance from, any Contract, License Agreement or Order, the failure to obtain which would have a Material Adverse Effect or would prohibit the Acquisition.

1.21 "Contract" means any material contract (including without limitation any purchase, sale, supply or service order or agreement, equipment lease, License Agreement or Lease) that relates to the Business or the Assets. For the purposes hereof, a Contract is "material" if (a) it relates to a transaction or series of transactions involving the expenditure or receipt by either of the Kidz Biz Companies of an amount in excess of Pound Sterling25,000 (or the transfer of property with a fair market value in excess of Pound Sterling25,000), (b) a breach or default thereunder would have a Material Adverse Effect, or (c) it relates to any Trade Right or any transaction not in the ordinary course of business.



1.22 "David Lipman" means David Lipman, one of the Shareholders.

1.23 "Disclosure Schedules" means the disclosure schedules attached to this Agreement.

1.24 "Dividends" means any dividends, dividend equivalents, bonuses or other distributions paid or payable by either of the Kidz Biz Companies to the Shareholders on or after October 1, 2001 through and up to (and including) the Closing Date (other than base salaries paid in the ordinary course consistent with past practice).

1.25 "Dragon Ball Z Claims" refers to any Claim by AB Toys, SNC, a company incorporated in France, against Kidz Biz UK under a Distribution Agreement dated December 5, 2000 between AB Toys, SNC, as licensor and Kidz Biz UK, as licensee.

1.26 "Earn-Out" means that portion of the Purchase Price payable under certain conditions pursuant to Section 2.3.

1.27 "Earn-Out Payment" means the payment, if any, to be satisfied by the issue of the Earn-Out Shares to the Shareholders and to be determined pursuant to Section 2.3 in respect of any Earn-Out Year.

1.28 "Earn-Out Payment Date" means a date on which any portion of the Earn-Out is to be satisfied by the issue of the Earn-Out Shares pursuant to Section 2.3.

1.29 "Earn-Out Shares" means the new Common Stock to be issued to satisfy any Earn-Out Payment.

1.30 "Earn-Out Year" means each of calendar year 2002, 2003, 2004 and 2005.

1.31 "Employment Agreement" means the employment agreement entered into at the Closing between Kidz Biz UK and David Lipman.

1.32 "Escrowee" means Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP, counsel to JAKKS Pacific or any substitute escrow agent appointed pursuant to Section 2.4.

1.33 "Far East Shares" means the shares of HK\$1.00 each of Far East.

1.34 "Financial Claim" refers to any Claim by JAKKS Pacific against any or all of the Shareholders for breach of the representations and warranties contained in Sections 4.4, 4.5, 4.6, 4.7, 4.8, 4.9, 4.10, 4.11 and 4.12 of this Agreement.

1.35 "Financial Statements" means the UK Financial Statements, the HK Financial Statements and the Management Accounts.

1.36 "Governmental Authority" means any U.S., English, Hong Kong or other U.S. federal, U.S. state or U.S. or other local government or governmental authority, agency or instrumentality, or any court or arbitration panel of competent jurisdiction, or any recognized professional or industry association or organization which establishes policies or standards or otherwise regulates or supervises services and activities related to the Business or the Assets.

1.37 "Hazardous Material" means any contaminant, pollutant or toxic or hazardous waste, effluent or other substance or material, including without limitation any radioactive, explosive, flammable, corrosive or infectious substance or material, or any substance or material containing asbestos, polychlorinated biphenyls or urea formaldehyde or which is otherwise subject to any Law, License or Order relating to the protection of the environment or human health or safety.

1.38 "HK Financial Statements" has the meaning given in Section 4.6.

1.39 "Holdback" means the aggregate sum of US\$1,000,000.00 for the Dragon Ball Z Claims, and any Financial Claims.

1.40 "Holdback Claim" refers to any Dragon Ball Z Claim and any Financial Claim.

1.41 "Holdback Period" means the period expiring on the date (i) ten (10) business days following the resolution of the Dragon Ball Z Claims, and (ii) ten (10) business days following the resolution of any Financial Claim by the dispute resolution procedures set forth in Section 7.5 or, in respect of any portion of the Holdback for Financial Claims against which no Financial Claim is made, the second anniversary of Closing, provided, however that the Holdback Period with respect to the Dragon Ball Z Claims and the Financial Claims shall terminate on the later of the date that is two (2) years and six (6) months following the date hereof and the date when any dispute among the Parties regarding indemnification for any such Claim is resolved.

1.42 "Hong Kong Lease" means a Lease for a term commencing July 10, 2000 between Hornbrook Investment, Ltd. as landlord and Far East as Tenant, a true and correct copy of which has been delivered by the Shareholders of Far East to JAKKS Pacific.

1.43 "JAKKS Pacific Shares" means 308,992 shares of new Common Stock issued as the Common Stock portion of the Closing Purchase Price.

1.44 "JAKKS Pacific Securities Claims" has the meaning given in the Registration Rights Agreement.

1.45 "John Nimmo" means John Nimmo, one of the Shareholders.

1.46 "Kidz Biz Accountants" means, when referring to Kidz Biz UK, Morgan Brown & Spofforth, Chartered Accountants and Registered Auditors, Surrey, England, and, when referring to Far East, David Ho & Company, Hong Kong.

1.47 "Kidz Biz Sales" means:

(a) in any period ending prior to the Closing Date, the sales of the Kidz Biz Companies in such period, and

(b) in any period ending on or after the Closing Date, the sales of the Kidz Biz Companies including, without limitation, for this purpose sales of any products produced or sold by

JAKKS Pacific (or any Affiliate thereof) using properties, including without limitation, Trade Rights, acquired by JAKKS Pacific (or such Affiliate) in the Acquisition in such period, determined on a "stand alone" basis in accordance with the accounting principles and practices consistently applied in the determination of the Kidz Biz Companies' sales by the relevant Kidz Biz Company and the relevant Kidz Biz Accountants prior to the Closing, as reflected in the relevant Kidz Biz Company's regularly prepared statements of operations, including those included in the relevant Kidz Biz Company's audited 1999 and 2000 Financial Statements.

1.48 "Kidz Biz Shares" means the Ordinary Shares and the Far East Shares.

1.49 "Law" means any statute, rule, regulation or ordinance of any Governmental Authority.

1.50 "Lease" means a lease pursuant to which either of the Kidz Biz Companies is a lessee of any Real Property.

1.51 "License Agreement" means a license, royalty or other Contract pursuant to which either of the Kidz Biz Companies has the right to use or exploit any Trade Right of another Person.

1.52 "Lien" means any security interest, conditional sale or other title retention agreement, mortgage, pledge, lien, charge, encumbrance or other adverse claim or interest other than, in any case, as may arise in the ordinary course of business.

1.53 "Limitations" means the limitations set out in Section 8.4.

1.54 "Management Accounts" means the Management Accounts of each of the Kidz Biz Companies for the period from December 31, 2000 to September 30, 2001 (copies of which are annexed to the Disclosure Schedules).

1.55 "Marilyn Lipman" means Marilyn Lipman, one of the Shareholders.

1.56 "Material Adverse Effect" means a material adverse effect on the Business or the Assets.

1.57 "Notice" means giving any notice to, or making any declaration or filing, or registration or recordation, with any Person.

1.58 "Order" means any judgment, order, writ, decree, award, directive, ruling or decision of any Governmental Authority.

1.59 "Ordinary Shares" means the ordinary shares of Pound Sterling<sup>1</sup> each of Kidz Biz UK.

1.60 "Payment Factor" means the percentage amounts set forth in Schedule I for allocation of the Purchase Price among the Shareholders.

1.61 "Percentage Y/O/Y Increase" has the meaning given in Section 2.3.

1.62 "Permit" means any permit, license, certification, qualification, franchise or privilege issued or granted by any Governmental Authority.

1.63 "Person" includes without limitation a natural person, corporation, joint stock company, limited liability company, partnership, joint venture, association, trust, Governmental Authority, or any group of the foregoing acting in concert.

1.64 "Proceeding" means any action, suit, arbitration, audit, investigation or other proceeding, at law or in equity, before or by any Governmental Authority (other than any routine audit of any Tax Authority).

1.65 "Purchase Price" means the aggregate of the Closing Purchase Price, increased by the Earn-Out.

1.66 "Real Property" means any real property subject to a Lease.

1.67 "Registration Rights Agreement" means an agreement among JAKKS Pacific and the Shareholders providing for Registration of the JAKKS Pacific Shares delivered at the Closing and the Earn-Out Shares.

1.68 "Securities Act" means the U.S. Securities Act of 1933, as amended.

1.69 "Share Certificates" means the certificates representing the JAKKS Pacific Shares, which shall bear the following legend:

Any transfer or other disposition of the shares represented by this certificate is subject to the provisions of a Stock Purchase Agreement among JAKKS Pacific, Inc. (the "Corporation") and the individual shareholders of Kidz Biz Limited and Kidz Biz Far East Limited. The shares of stock represented by this Certificate have not been registered under the United States Securities Act of 1933, as amended (the "Act"), and may be transferred only if (i) registered under the Act and the requirements of any state having jurisdiction are complied with or (ii) the transfer is exempt from such registration and state requirements and counsel reasonably acceptable to the Corporation has delivered to the Corporation a written opinion reasonably acceptable to the Corporation setting forth the basis for such exemption.

1.70 "Shareholder" means each Person listed on Schedule I, constituting all of the shareholders of record of the Kidz Biz Companies.

1.71 "Shareholder Securities Claims" has the meaning given in the Registration Rights Agreement.

1.72 "Storage Facility Agreement" means the agreement between Kidz Biz UK and Euro Pressing Services Ltd (EUROP) of Leicester, for use by Kidz Biz UK of a warehouse facility at 16-20 Euston Street, Freemans Common, Ayleston Road, Leicester LE2 7SS, England.

1.73 "Tax" means any income, excise, import, sales, property, withholding, social security or franchise tax or duty, and any interest, penalty or fine due thereon or with respect thereto of the U.S. (federal, state or local), United Kingdom or Hong Kong, or any other jurisdiction, as the context may require.

1.74 "Tax Authority" means any U.S., English or Hong Kong governmental authority, whether local, state or federal, or any agency of such authority which is competent to charge, impose or collect any Tax.

1.75 "Tax Claim" refers to any claim by any Tax Authority against Kidz Biz UK for Tax in respect of income, profits, or gains made by Kidz Biz UK before the Closing.

1.76 "Trade Right" means a patent, claim of copyright, trademark, trade name, brand name, service mark, logo, symbol, trade dress or design, or representation or expression of any thereof, or registration or application for registration thereof, or any other invention, trade secret, technical information, know-how, proprietary right or intellectual property.

1.77 "UK Financial Statements" has the meaning given in Section 4.6.4.6.

1.78 "U.S." means the United States of America.

1.79 "US\$" means U.S. dollars.

## 2. Purchase of the Kidz Biz Shares.

2.1 Transfer of Shares. Each Shareholder agrees to sell with full title guarantee and JAKKS Pacific agrees to buy at the Closing the Ordinary Shares owned by such Shareholder and each right attached to the Ordinary Shares at or after the date of this Agreement, free of any encumbrances, and each Shareholder agrees to sell, assign, transfer and deliver to JAKKS Pacific agrees to buy at the Closing the Far East Shares owned by such Shareholder free and clear of any liens, claims or encumbrances.

2.2 Delivery of Closing Purchase Price. At the Closing, JAKKS Pacific is delivering the Closing Purchase Price to the Shareholders in proportion to their respective Payment Factors in accordance with payment instructions given by the Shareholders to JAKKS Pacific.

2.3 Earn-Out. In addition to the Closing Purchase Price, JAKKS Pacific shall pay the Earn-Out to the Agent in the form of Common Stock for the benefit and account of the several Shareholders in the amount and payable in the manner and upon the terms and conditions set forth below:

(a) The Earn-Out for each Earn-Out Year shall be determined by the increase, if any, in Kidz Biz Sales for such Earn-Out Year over the prior year's Kidz Biz Sales, expressed as a percentage

of the prior year's Kidz Biz Sales (the "Percentage Y/O/Y Increase"), and shall be earned and payable as follows:

(i) if the Percentage Y/O/Y Increase is less than or equal to five (5%) percent, there will be no Earn-out Payment for the Earn-Out Year;

(ii) if the Percentage Y/O/Y Increase is greater than five (5%) percent but less than or equal to ten (10%) percent, the Earn-out Payment for such Earn-Out Year will equal the number of shares of Common Stock equal to the product of (i) a fraction the numerator of which is five (5%) percent and the denominator of which is the excess of the Percentage Y/O/Y Increase over five (5%) percent and (ii) 25,749 shares of Common Stock; and

(iii) if the Percentage Y/O/Y Increase is greater than ten (10%) percent, the Earn-out Payment for such Earn-Out Year will be 25,749 shares of Common Stock.

(b) The Earn-Out Shares, if any, for each Earn-Out Year shall be delivered as soon as practicable, but in any event not later than sixty (60) days, after the end of such Earn-Out Year.

(c) On each Earn-Out Payment Date, JAKKS Pacific shall pay the Earn-Out, if any, for the applicable Earn-Out Year to the Agent (for the benefit and account of the several Shareholders) in the manner provided in a Notice given to JAKKS Pacific pursuant to Section 3.2 or, if no such Notice is given, by delivering share certificates for the Earn-Out Shares in the names of each Shareholder to the Agent, each certificate to be for the same proportion of the Earn-Out Shares for that Earn-Out Year as the proportion of Earn-Out Shares received by such Shareholder in payment of the last preceding Earn-Out Payment, or if no preceding Earn-Out Payment has then been made, for the same proportion of the Earn-Out Shares as the proportion of the JAKKS Pacific Shares received by such Shareholder on Closing.

(d) In the event that JAKKS Pacific ceases to control Kidz Biz UK or Far East and David Lipman's employment is terminated without "cause" by Kidz Biz UK or by David Lipman for "good reason" (as such terms are used in the Employment Agreement) prior to the end of the term of the Employment Agreement, JAKKS Pacific shall within ten (10) business days thereafter deliver to the Agent for the benefit and account of the Shareholders 25,749 shares of Common Stock in respect of the



then current Earn-Out Year in which such events occur in full satisfaction of the Earn-Out obligation for such Earn-Out Year, and 25,749 shares of Common Stock in respect of each Earn-Out Year thereafter, such delivery to occur within thirty (30) days after the end of the relevant subsequent Earn-Out Year, if any, provided, however, that if such termination occurs after the third anniversary of the Closing under this Agreement, the number of shares of Common Stock thereafter deliverable on account of the Earn-Out shall equal the average number of shares of Common Stock delivered in satisfaction of the Earn-Out obligation, if any, during the Earn-Out Years ending prior to such termination.

#### 2.4 Holdback.

(a) At the Closing, cash in an aggregate amount equal to the Holdback shall be held in escrow by the Escrowee in accordance with this Section 2.4. In the event that any Holdback Claim arises during the relevant Holdback Period following Closing, JAKKS Pacific shall promptly give the Agent notice after its receipt of written notice of the Holdback Claim, and JAKKS Pacific may, subject to the following requirements of this Section 2.4, instruct the Escrowee to release an amount equal to the amount asserted in the Holdback Claim (not to exceed US\$500,000.00 with respect to the Dragon Ball Z Claim and not to exceed \$500,000 with respect to the Financial Claims, subject to the other limitations contained in Section 8.4 of this Agreement), and if no specific amount is asserted, then an amount reasonably estimated by JAKKS Pacific not to exceed the foregoing limitations, and the Escrowee shall comply with such instructions. JAKKS Pacific shall use good faith efforts to consult with the Agent with respect to the resolution of a Holdback Claim. Prior to giving notice to the Escrowee to effect a release of any amount from escrow, JAKKS Pacific shall give a written notice (the "Release Notice") to the Agent that it is to proposing to notify the Escrowee to effect a release of funds, specifying in reasonable detail (i) the amount of the Holdback Claim which JAKKS Pacific claims to be entitled to pursuant to this Section 2.4 (or, if not readily calculable, a reasonable estimate of the amount of such Holdback Claim), (ii) the basis of the Holdback Claim and (iii) the date on which such release shall be effected (which date shall not be less than ten (10) days after the date that such written notice is given to the Agent (such ten (10) day period is referred to herein as the "Release Notice Period")).

(b) In the case of a Financial Claim if, prior to the expiration of the Release Notice Period, the Agent shall notify JAKKS Pacific in writing of an intention to dispute the Financial Claim, the parties hereto shall, for a period of ten (10) business days, attempt to resolve such dispute and JAKKS

Pacific shall be prohibited from giving notice to the Escrowee to effect such release during such period. If the Agent and JAKKS Pacific, each acting reasonably, are unable to resolve such dispute within such period, no funds shall be released by Escrowee until receipt by Escrowee of joint written instructions signed by Agent and JAKKS Pacific or the issuance of a final, non-appealable order of instruction by a court of competent jurisdiction. If (x) the Agent does not so notify JAKKS Pacific of an intention to dispute the Financial Claim prior to the expiration of the Release Notice Period, (y) joint instructions are so received regarding the Release Notice, or (z) a court of competent jurisdiction shall issue such an order providing that JAKKS Pacific is entitled to the Financial Claim, then JAKKS Pacific shall be entitled to give notice to the Escrowee to effect a release of funds in accordance with this Section 2.4.

(c) The Parties agree that the Agent shall use good faith efforts to resolve the Dragon Ball Z Claim in a manner reasonably acceptable to the Agent and JAKKS Pacific within six (6) months after the date hereof. If the Dragon Ball Z Claim is not resolved within such six (6) month period, then JAKKS Pacific shall be entitled to resolve the Dragon Ball Z Claim on such terms as it deems acceptable ( using reasonable business judgment), and shall be entitled to withdraw the amount by which it resolves such Claim (by settlement or litigation) from the funds held in escrow by the Escrowee by giving the Release Notice and following the procedure described in paragraph (a) of this Section 2.4. In attempting to resolve the Dragon Ball Z Claim, the Agent and JAKKS Pacific shall consult with one another.

(d) The Holdback shall be deposited in an interest bearing account and the interest paid thereon shall be paid to Agent semi-annually.

(e) At the end of any Holdback Period, the balance of the Holdback remaining in escrow with respect to the category of Holdback Claims as to which the Holdback Period has expired shall be released to the Agent with all interest paid thereon for distribution among the Shareholders.

(f) Following the Closing, upon request of any of the Parties, the Shareholders and JAKKS Pacific shall cooperate with one another in good faith to promptly select an independent third party institution acceptable to the Parties, such as a bank, to act as the escrow agent under this paragraph, and the fees of such substitute escrow agent shall be paid by JAKKS Pacific.

2.5 Escrowee Obligations. The Escrowee shall perform only the duties expressly set forth herein and in Section 2.5, and shall refer to this Agreement in performing its duties hereunder. The Escrowee may rely upon, and shall be protected in acting, or refraining from acting upon, any written notice, instruction or request furnished to it hereunder and believed by it to be genuine and to have been signed or presented by the proper party or parties. The Escrowee shall not be liable for any action taken by it hereunder except for the Escrowee's gross negligence or willful misconduct. The Parties shall indemnify the Escrowee and hold it harmless against any loss, liability or expense incurred without bad faith or gross negligence on its part, arising out of or in connection with this Agreement, including the costs and expenses incurred in defending any such claim of liability. The Escrowee may consult with its own counsel, and shall have full and complete authorization and protection for any action taken or suffered in good faith and in accordance with the opinion of such counsel. The Escrowee may resign at any time by giving thirty (30) days' prior written notice of such resignation to the Parties. Thereafter, the Escrowee shall have no further obligation hereunder except to hold the funds delivered to it as depository. In such event, the Escrowee shall not take any action until the Parties have designated a successor Escrowee. The Parties together may terminate the appointment of the Escrowee hereunder upon notice specifying, the date upon which such termination shall take effect. In the event of such termination, the Parties shall, within thirty (30) days after notice from the Escrowee, jointly appoint a successor Escrowee. Upon appointment of a successor Escrowee, the Escrowee shall turn over the funds held by it to such successor Escrowee and shall thereafter have no further obligations hereunder. JAKKS Pacific shall pay the compensation of the Escrowee for the Escrowee's services hereunder and all expenses, disbursements and advances (including reasonable attorneys' fees) incurred in carrying out the Escrowee's duties hereunder. The Shareholders acknowledge that the Escrowee has acted as counsel to JAKKS Pacific in the preparation, negotiation and conclusion of this Agreement and the transactions related to the Acquisition, and hereby consent to the Escrowee representing its and their Affiliates in any proceeding arising out of any dispute under this Agreement, any of the transactions or agreements contemplated by this Agreement.

2.6 Effective Date. The Parties acknowledge that JAKKS Pacific will for its Tax and financial statement purposes treat the Acquisition of the Shares to have taken effect on October 1, 2001.

3. The Agent.

3.1 Notices to Agent. Any Party hereto may rely upon any Notice given by the Agent on behalf of any Shareholder with respect to any election, determination or other action to be made or taken by him hereunder as the act and deed of such Shareholder. It shall be sufficient to deliver to the Agent at his address set forth in Section 12.4 below any payment, Notice or other document to be delivered hereunder to any Shareholder and it shall be the sole responsibility of the Agent to disburse any funds or deliver any Notice or other document so delivered to him in such manner as he and the Shareholders, or any of them, may agree.

3.2 Directions from Agent. The Agent may specify the manner of payment of the Purchase Price, and the account or Person to which such payment is to be made, by giving to JAKKS Pacific at least two business days prior to an Earn-Out Payment Date, a written Notice setting forth instructions for the manner in which payment of the Earn-Out is to be made.

3.3 Authority of Agent. Each election, determination or other action of the Agent in connection with this Agreement shall be binding upon all of the Shareholders, and no Shareholder shall have any right to object, dissent from, or protest or otherwise contest the same or take any separate action relating to the same.

3.4 Payments to Agent. Any delivery or payment to be made hereunder to or for the account of any Shareholder that is made to the Agent as herein provided shall constitute, as between JAKKS Pacific and the Shareholders, payment and delivery in full of the amount thereof. It shall be the sole responsibility of the Agent to hold for the account of the Shareholders and to disburse to them the JAKKS Pacific Shares and any funds JAKKS Pacific may pay or deliver to it pursuant hereto.

#### 4. Representations and Warranties of Kidz Biz and the Shareholders.

The Shareholders, severally but not jointly, except as to David Lipman and Marilyn Lipman, whose obligations shall be joint and several, hereby represent and warrant to JAKKS Pacific as follows, subject to and except for the matters disclosed on the Disclosure Schedules (each Shareholder makes such representation and warranty as to the corporation of which he or she is a Shareholder):

4.1 Kidz Biz UK Existence; Shareholders. Kidz Biz UK is a private limited company duly organized and validly existing under the Laws of England and Wales and has been in continuous existence since its incorporation and has full power and authority to own its Assets and carry on its Business as and in the places where such Assets are now owned or such Business is now being conducted. Complete and correct copies of Kidz Biz UK's Articles of Association, including all amendments thereto, and Kidz Biz UK's Memorandum of Association, including all amendments thereto, have been delivered to JAKKS Pacific. The only share capital that Kidz Biz UK is authorized to issue consists of 25,000 Ordinary Shares. Except as set forth on Schedule I, such Shareholder owns beneficially and of record all of the Ordinary Shares set forth opposite such Shareholder's name on Schedule I, free and clear of all Liens or any restriction with respect to the voting or disposition thereof (other than restrictions of general applicability imposed by applicable securities Laws), and such Ordinary Shares constitute in the aggregate all of the Ordinary Shares. All of the Ordinary Shares are duly authorized, validly issued and fully paid. None of the share capital of Kidz Biz UK is reserved for issuance and there are no agreements, commitments or arrangements providing for the issuance or sale of any thereof, or any issued or outstanding options, warrants or other rights to purchase, or securities or instruments convertible into or exchangeable for, any share capital of Kidz Biz UK.

4.2 Far East Existence; Shareholders. Far East is a private limited liability company duly organized, validly existing and under the Laws of Hong Kong and has full power and authority to own its Assets and carry on its Business as and in the places where such Assets are now owned or such Business is now being conducted. Complete and correct copies of Far East's Articles of Association, including all amendments thereto, and Far East's Memorandum of Association, including all amendments thereto, have been delivered to JAKKS Pacific. The authorized capital stock of Far East is HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each, 1,000 of which shares have been issued and are fully paid up. Except as set forth on Schedule I, such Shareholder owns beneficially and of record all of the Far East Shares set forth opposite such Shareholder's name on Schedule I, free and clear of all Liens or any restriction with respect to the voting or disposition thereof (other than restrictions of general applicability imposed by applicable securities Laws), and such Far East Shares constitute in the aggregate all of the issued share capital of Far East. All of such Far East Shares are duly authorized and validly issued. No shares of capital stock of Far East are reserved for issuance and there are no agreements, commitments or arrangements providing for the issuance or sale of any thereof, or any issued or outstanding options, warrants or other rights to purchase, or securities or instruments convertible into or exchangeable for, any capital stock of Far East.

4.3 Power and Authority. Each Shareholder (as to himself or herself) has the legal capacity, power and authority, to execute and deliver this Agreement and each Acquisition Document to which he or she is a party and to assume and perform his or her respective obligations hereunder and thereunder. This Agreement has been, and each other Acquisition Document to which he or she is a party will be, duly executed and delivered by such Shareholder. No Consent of, or Notice to, any Person is required as to any Shareholder in connection with its execution and delivery of this Agreement or any other Acquisition Document to which he or she is a party, or the performance of his or her obligations hereunder or thereunder.

#### 4.4 Proceedings.

(a) Except as set forth on the Disclosure Schedules, so far as such Shareholder of Kidz Biz UK is aware, no Proceeding is pending or, to the best of his/her knowledge, threatened against or affecting the Business, the Assets or the operations of Kidz Biz UK in which an unfavorable Order would have a Material Adverse Effect, or prohibit, invalidate, or make unlawful, in whole or in part, the Acquisition, this Agreement or any other Acquisition Document, or the carrying out of the provisions hereof or thereof. Except as set forth on Schedule 4.4, so far as such Shareholder is aware, Kidz Biz UK is not in default in respect of any Order, nor is there any Order enjoining either of Kidz Biz UK or any Shareholder of Kidz Biz UK in respect of, or the effect of which is to prohibit or curtail the Kidz Biz UK's or any such Shareholder's performance of, its obligations hereunder or thereunder.

(b) Except as set forth on the Disclosure Schedules, so far as such Shareholder of Far East is aware, no Proceeding is pending or, to the best of their knowledge, threatened against or affecting the Business, the Assets or the operations of Far East in which an unfavorable Order would have a Material Adverse Effect, or prohibit, invalidate, or make unlawful, in whole or in part, the Acquisition, this Agreement or any other Acquisition Document, or the carrying out of the provisions hereof or thereof. Except as set forth on Schedule 4.4, so far as such Shareholder of Far East is aware, Far East is not in default in respect of any Order, nor is there any Order enjoining either of Far East or any Shareholder of Far East in respect of, or the effect of which is to prohibit or curtail Far East's or any such Shareholder's performance of, its obligations hereunder or thereunder.

#### 4.5 Financial Statements.

Except as set forth on the Disclosure Schedules:

(a) UK Financial Statements.

(i) Kidz Biz UK's audited financial statements comprising the balance sheet, profit and loss account and cash flow statement of Kidz Biz UK together with the notes thereon (collectively, the "UK Financial Statements"), for the financial year ended on December 31, 2000:

(1) show a true and fair view of the:

(A) state of affairs of Kidz Biz UK as at December 31, 2000, and

(B) the results of Kidz Biz UK for the financial year ended on December 31, 2000.

(2) have been prepared and audited in accordance with the standards, principles and practices specified in of the UK Financial Statements applied on a consistent basis and subject thereto in accordance with the law and applicable standards, principles and practices generally accepted in the United Kingdom consistently applied; and

(3) have been prepared on a basis consistent with the basis upon which all audited Financial Statements of Kidz Biz UK have been prepared in respect of the three years ended December 31, 2000.

(ii) Kidz Biz UK owns all of its material Assets free and clear of all Liens, except as disclosed in the UK Financial Statements, its Management Accounts or any Disclosure Schedule . (iii) The Management Accounts of Kidz Biz UK have been prepared on a basis consistent with the UK Financial Statements and are reasonably accurate in all material respects, and (in light of the purpose for which they were prepared) give a fair view of the state of affairs of Kidz Biz UK for the period from January 1, 2001 through September 30, 2001.

(b) HK Financial Statements.

(i) Far East's audited financial statements comprising the balance sheet, profit and loss account and cash flow statement of Far East together with the notes thereon, (collectively, the "HK Financial Statements")for the financial Year ended on December 31, 2000:

(1) show a true and fair view of the

(A) state of affairs of Far East as at December 31, 2000, and

(B) the results of Far East for the financial year ended on December 31, 2000;

(2) have been prepared and audited in accordance with the standards, principles and practices specified in the HK Financial Statements applied on a consistent basis and subject thereto in accordance with the law and applicable standards, principles and practices generally accepted in the HKSAR consistently applied; and

(3) have been prepared on a basis consistent with the basis upon which all audited Financial Statements of Far East have been prepared in respect of the three years ended December 31, 2000.

(ii) Far East owns all of its material Assets free and clear of all Liens, except as disclosed in the HK Financial Statements, its Management Accounts or any Disclosure Schedule.

(iii) The Management Accounts of Far East have been prepared on a basis consistent with the HK Financial Statements and are reasonably accurate in all material respects, and (in light of the purpose for which they were prepared) give a fair view of the state of affairs of Far East for the period from January 1, 2001 through September 30, 2001.

#### 4.6 Material Adverse Changes.

(a) Except as set forth on the Disclosure Schedules or specifically disclosed elsewhere herein, so far as such Shareholder of Kidz Biz UK is aware, since September 30, 2001 there has not been any material adverse change in the Business or the Assets of Kidz Biz UK or Kidz Biz UK's financial condition.

(b) Except as set forth on the Disclosure Schedules or specifically disclosed elsewhere herein, so far as each Shareholder of Far East is aware, since September 30, 2001 there has not been any material adverse change in the Business or the Assets of Far East or Far East's financial condition.



#### 4.7 Trade Rights.

(a) Except as set forth on the Disclosure Schedules, so far as such Shareholder of Kidz Biz UK is aware, no Trade Right of Kidz Biz UK conflicts with or infringes on, and, so far as such Shareholder of Kidz Biz UK is aware, there has been no misappropriation or unauthorized use by Kidz Biz UK of, any Trade Right of any other Person.

(b) Except as set forth on the Disclosure Schedules, so far as such Shareholder of Far East is aware, no Trade Right of Far East conflicts with or infringes on, and, so far as such Shareholder of Far East is aware, there has been no misappropriation or unauthorized use by Far East of, any Trade Right of any other Person.

#### 4.8 Real Property.

Except as disclosed on the Disclosure Schedules:

(a) Kidz Biz UK does not own, lease, use or occupy any real property except the lease of the Real Property subject to the Clockhouse Lease and use of the Storage Facility Agreement. Kidz Biz UK does not sublease any Real Property.

(b) Far East does not own, lease, use or occupy any real property except the lease of the Real Property subject to the Hong Kong Lease. Far East does not sublease any Real Property.

#### 4.9 Hazardous Material.

(a) So far as such Shareholder of Kidz Biz UK is aware, no Hazardous Material has been generated, used, stored, released or disposed of at, or transported to or from, the Real Property leased by Kidz Biz UK or in connection with the Business of Kidz Biz UK, and no Law, Permit, Order or Proceeding applicable to Kidz Biz UK or its Assets requires any clean-up or remediation or participation in or contribution to any such clean-up or remediation.

(b) So far as such Shareholder of Far East is are aware, no Hazardous Material has been generated, used, stored, released or disposed of at, or transported to or from, the Real Property leased by Far East or in connection with the Business of Far East, and no Law, Permit, Order or

Proceeding applicable to Far East or its Assets requires any clean-up or remediation or participation in or contribution to any such clean-up or remediation.

4.10 Tax Returns. Except as disclosed on the Disclosure Schedules, each of the Kidz Biz Companies has duly filed all Tax and information returns and reports required to have been filed by it, each of which is complete and correct in all material respects. Except as disclosed on the Disclosure Statements, each of the Kidz Biz Companies has paid all Taxes due to any Governmental Authority required to have been paid by it and has created sufficient reserves or made provision for all Taxes accrued but not yet due and payable by it. Except as disclosed in the Disclosure Schedules, each of the Kidz Biz Companies has paid to the proper Governmental Authorities all customs, duties and similar or related charges required to be paid by it with respect to the importation of goods into the United Kingdom. Except as disclosed on the Disclosure Schedules, no Governmental Authority is now asserting or, to the best of their knowledge, threatening to assert any deficiency or assessment for additional Tax Claims, nor, to the best of their knowledge, is there any basis for any such deficiency or assessment. Except as disclosed on the Disclosure Schedules, so far as each Shareholder is aware, neither of the Kidz Biz Companies has been audited by any Governmental Authority with respect to any fiscal year ending at any time in the three-year period prior to Closing and, so far as each Shareholder is aware, no other such audit has been threatened or proposed. Neither of the Kidz Biz Companies has waived or consented to any tolling of any limitation period with respect to any Tax liability. The Kidz Biz Companies have delivered to JAKKS Pacific complete and correct copies of the Tax returns of the Kidz Biz Companies for each of their respective ended fiscal years ended December 31, 1998, 1999 and 2000.

#### 4.11 Employees.

(a) The Disclosure Schedules include a complete and correct list of the names and current annual salary, bonus and commission for each current employee of Kidz Biz UK. Except as set forth on Schedule 4.11-A, so far as such Shareholder of Far East is aware, no employee listed thereon intends to terminate his or her employment relationship with Kidz Biz UK.

(b) The Disclosure Schedules include a complete and correct list of the names and current annual salary, bonus and commission for each current employee of Far East. Except as set forth on Schedule 4.11-B, so far as each Shareholder of Kid Biz HK is aware, no employee listed thereon intends to terminate his or her employment relationship with Far East.

4.12 Excess Dividends. The Kidz Biz Companies have not paid Dividends in excess of Pound Sterling 112,000 in the aggregate since September 30, 2001.

4.13 Affiliates.

(a) Except as set forth in the UK Financial Statements or the Disclosure Schedules, no Shareholder and no Affiliate of the Kidz Biz UK or any Shareholder of either of the Kidz Biz Companies or any relative, associate or agent of any of them has any interest in any property of Kidz Biz UK, including without limitation any Contract for the furnishing of services by, or rental of real or personal property from or to, or requiring payments to, any such Shareholder or such Affiliate. Except as set forth in the UK Financial Statements or the Disclosure Schedules, no Shareholder or Affiliate of any Shareholder of any of the Kidz Biz Companies holds any indebtedness of or has any Claim against Kid Biz UK.

(b) Except as set forth in the HK Financial Statements or the Disclosure Schedules, no Shareholder and no Affiliate of Far East or any Shareholder of either of Far East or any relative, associate or agent of any of them has any interest in any property of Far East, including without limitation any Contract for the furnishing of services by, or rental of real or personal property from or to, or requiring payments to, any such Shareholder or such Affiliate. Except as set forth in the HK Financial Statements or the Disclosure Schedules, no Shareholder or Affiliate of any Shareholder of any of the Kidz Biz Companies holds any indebtedness of or has any Claim against Far East.

4.14 Brokers.

(a) Neither Kidz Biz UK nor such Shareholder of Kidz Biz UK has employed or engaged any Person to act as a broker, finder or other intermediary in connection with the Acquisition, and (b) no Person is entitled to any fee, commission or other compensation relating to any such employment or engagement by Kidz Biz UK or such Shareholder of Kidz Biz UK.

(b) Neither Far East nor such Shareholder of Far East has employed or engaged any Person to act as a broker, finder or other intermediary in connection with the Acquisition, and (b) no

Person is entitled to any fee, commission or other compensation relating to any such employment or engagement by Far East or such Shareholder of Far East.

4.15 Investment Representation. Each Shareholder represents and warrants that he or she will be acquiring the JAKKS Pacific Shares for investment purposes only and not with a view to distribution thereof, and recognizes that any sale, pledge or other disposition of such shares is limited by the provisions of the Securities Act, and the regulations issued thereunder, and other applicable securities laws and Blue Sky Laws.

4.16 Agent's Appointment. Such Shareholder has duly appointed the Agent to act as such Shareholder's agent and attorney-in-fact with respect to the Acquisition in accordance with the Agent Agreement, a correct and complete copy of which has been heretofore delivered to JAKKS Pacific, and has duly authorized the Agent to take any action necessary in connection with (i) the implementation of this Agreement on behalf of such Shareholder, (ii) the waiver of any condition to the obligations of such Shareholder to close the Acquisition, or (iii) the compromise or settlement of any dispute hereunder, all as more fully set forth therein.

4.17 Limitation of Warranties. JAKKS Pacific acknowledges that in making its determination as to the propriety of the transactions contemplated by this Agreement, it has relied solely on the representations and warranties of the Shareholders expressly contained in Section 4 of this Agreement. EXCEPT AS EXPRESSLY SET FORTH IN SECTION 4, THE SHAREHOLDERS MAKE NO EXPRESS OR IMPLIED WARRANTY OF ANY KIND WHATSOEVER, INCLUDING ANY REPRESENTATION AS TO PHYSICAL CONDITION OR VALUE OF ANY OF THE ASSETS OF THE KIDZ BIZ COMPANIES OR THE FUTURE PROFITABILITY OR FUTURE EARNINGS PERFORMANCE OF THE KIDZ BIZ COMPANIES. ALL IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE ARE EXPRESSLY EXCLUDED.

## 5. Representations and Warranties of JAKKS Pacific.

JAKKS Pacific hereby represents and warrants and the Shareholders as follows:

5.1 JAKKS Pacific Good Standing. JAKKS Pacific is a corporation duly organized, validly existing and in good standing under the laws of Delaware, and has full power and authority to own its assets and carry on its business as and in the places where such assets are now owned or such business is

now being conducted. Complete and correct copies of JAKKS Pacific's Certificate of Incorporation, including all amendments thereto, and Bylaws, including all amendments thereto, have been delivered to the Shareholders.

5.2 Power and Authority. Each of JAKKS Pacific has full corporate power and authority to execute and deliver this Agreement and each other Acquisition Document to which it is a party and to assume and perform its obligations hereunder and thereunder. The execution and delivery by JAKKS Pacific of this Agreement and each other Acquisition Document to which it is a party and the performance of its obligations hereunder and thereunder have been duly authorized by all requisite corporate action on its part. This Agreement has been, and each other Acquisition Document to which it is a party will be, duly executed and delivered by JAKKS Pacific, and this Agreement is, and each other Acquisition Document to which it is a party, when so executed and delivered, will be, a legally valid and binding obligation of JAKKS Pacific, enforceable against it in accordance with its terms, subject to (a) bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally, and (b) equitable principles limiting the availability of specific performance, injunctive relief and other equitable remedies. The execution and delivery of this Agreement does not, and the execution and delivery of each other Acquisition Document and the performance by JAKKS Pacific of its obligations hereunder and thereunder will not, violate any provision of its Certificate of Incorporation or Bylaws. No Consent of, or Notice to, any Person is required as to JAKKS Pacific in connection with its execution and delivery of this Agreement or any other Acquisition Document to which it is a party, or the performance of its obligations hereunder or thereunder. The approval of the shareholders of JAKKS Pacific for JAKKS Pacific to execute this Agreement or consummate the transactions contemplated hereby is not required.

5.3 JAKKS Pacific Shares. The JAKKS Pacific Shares have been duly authorized and validly issued, and are fully paid and non-assessable, and free and clear of any liabilities, liens, security interests, pledges or encumbrances of any nature whatsoever, and the Earn-Out Shares shall be duly authorized and validly issued, and are fully paid and non-assessable, and free and clear of any liabilities, liens, security interests, pledges or encumbrances of any nature whatsoever, except in any such case as may be created by the Shareholders and except as the sale, pledge or other disposition thereof is limited by the provisions of the Securities Act and other applicable US or English securities laws and Blue Sky

Laws. JAKKS Pacific shall keep available at all times sufficient authorized but unissued Common Stock as may be necessary for issuance of the Earn-Out Shares.

5.4 Brokers. Neither JAKKS Pacific nor JAKKS Pacific has employed or engaged any Person to act as a broker, finder or other intermediary in connection with the Acquisition, and no Person is entitled to any fee, commission or other compensation relating to any such employment or engagement by JAKKS Pacific.

5.5 Proceedings. No Proceeding is pending, or, to the best of JAKKS Pacific's or JAKKS Pacific's knowledge, threatened against or affecting its business, assets, operations or financial or other condition in which an unfavorable Order would have a material adverse effect on JAKKS Pacific's business or assets or prohibit, invalidate, or make unlawful, in whole or in part, the Acquisition, this Agreement or any other Acquisition Document, or the carrying out of the provisions hereof or thereof. Neither JAKKS Pacific nor JAKKS Pacific is in default in respect of any Order nor is there any Order enjoining it in respect of, or the effect of which is to prohibit or curtail its performance of, its obligations hereunder or thereunder.

5.6 No Material Adverse Change. So far as JAKKS Pacific is aware, since September 30, 2001 there has not been any material adverse change in JAKKS Pacific's financial condition.

5.7 Eligibility for Form S-3. JAKKS Pacific meets, and shall use its best efforts to continue to meet, the requirements for the use of Form S-3 for registration or re-sale by the Shareholders of the JAKKS Pacific Shares and the Earn-Out Shares for their own account and not as an "underwriter" as such term is defined in the Securities Act, and JAKKS Pacific shall use its best efforts to file all reports required to be filed by JAKKS Pacific with the Commission in a timely fashion so as to maintain such eligibility for the use of Form S-3.

5.8 Limitation of JAKKS Pacific's and JAKKS Pacific's Warranties. Each of the Shareholders acknowledges that in making their determination as to the propriety of the transactions contemplated by this Agreement, they have relied solely on the representations and warranties of JAKKS Pacific expressly contained in Section 5 of this Agreement and on the documents (including financial statements, proxy statements, and annual reports) filed by JAKKS Pacific with the Commission.

EXCEPT AS EXPRESSLY SET FORTH IN SECTION 5, JAKKS Pacific MAKE NO EXPRESS OR IMPLIED WARRANTY OF ANY KIND WHATSOEVER, INCLUDING ANY REPRESENTATION AS TO THE FUTURE PROFITABILITY OR FUTURE EARNINGS PERFORMANCE OF JAKKS PACIFIC OR ANY OF THEIR AFFILIATES. ALL IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE ARE EXPRESSLY EXCLUDED.

## 6. Closing.

6.1 Concurrent Closing. The Closing is being held concurrently with the execution of this Agreement. The execution and/or delivery of each document to be executed and/or delivered at the Closing and each other action to be taken at the Closing shall be deemed to be executed and/or delivered or taken, as the case may be, simultaneously.

6.2 Deliveries by Shareholders. At the Closing, the Shareholders shall deliver to JAKKS Pacific:

(a) transfers in common form relating to all the Ordinary Shares duly executed in favor of JAKKS Pacific (or as it may direct);

(b) instruments of transfer and bought and sold notes relating to all the Far East Shares duly executed by the Shareholders in favor of JAKKS Pacific and or in the name(s) of any other person(s) or nominee(s) that JAKKS Pacific may direct;

(c) share certificates relating to the Ordinary Shares or lost share certificate indemnities therefor in the agreed terms;

(d) share certificates relating to the Far East Shares or lost share certificate indemnities therefor in the agreed terms;

(e) the resignations, effective at the Closing, of all of Kidz Biz Companies' directors immediately prior to the Closing; and



(f) Evidence satisfactory to JAKKS Pacific and its counsel that at or prior to the Closing (and prior to the taking effect of the resignations of the directors referred to in clause 6.2(d) above) the Shareholders of Kidz Biz UK shall have procured the passing of board resolutions of Kidz Biz UK:

(i) sanctioning for registration (subject to due stamping which shall be paid by JAKKS Pacific) the transfers in respect of the Ordinary Shares;

(ii) appointing such persons as JAKKS Pacific may specify to be the directors and secretary of Kidz Biz UK;

(iii) revoking all mandates to bankers and giving authority in favor of such persons as JAKKS Pacific may nominate to operate the bank accounts thereof;

(iv) resolving that Kidz Biz UK enters into the Employment Agreement with David S. Lipman;

(g) Evidence satisfactory to JAKKS Pacific and its counsel that at or prior to the Closing (and prior to the taking effect of the resignations of the directors referred to in clause 6.2(e) above) the Shareholders of Far East shall have procured the passing of board resolutions of Kidz Biz HK:

(i) sanctioning for registration (subject where necessary to due stamping) the transfers in respect of the Far East Shares;

(ii) appointing such persons as JAKKS Pacific may specify to be the directors and secretary of Far East;

(iii) revoking all mandates to bankers and giving authority in favor of such persons as JAKKS Pacific may nominate to operate the bank accounts thereof.

#### 6.3 Deliveries by JAKKS Pacific. At the Closing:

(a) JAKKS Pacific shall deliver to the Shareholders of Kidz Biz UK, in the original principal amount of US\$1,408,000.00 cash, less US\$220,000.00 as part of the Holdback, which portion of the Holdback shall be delivered to the Escrowee, and 67,979 JAKKS Pacific Shares; and

(b) JAKKS Pacific shall deliver to the Shareholders of Far East, US\$4,992,000.00 cash less US\$780,000.00 as part of the Holdback, which portion of the Holdback shall be delivered to the Escrowee, and 241,013 JAKKS Pacific Shares.

(c) JAKKS Pacific shall deliver to the Shareholders evidence satisfactory to the Shareholders and their counsel of the approval by the board of JAKKS Pacific of entry into this Agreement and the other Acquisition Documents.

6.4 At the Closing Kidz Biz UK and David Lipman shall each execute and deliver to the other the Employment Agreement and Kidz Biz UK.

## 7. Additional Covenants.

7.1 Restrictive Covenants. From and after the Closing Date and until December 31, 2004, no Shareholder of either of the Kidz Biz Companies shall, directly or indirectly through any Affiliate or other intermediary (a) engage in the Business conducted by the Kidz Biz Companies, or serve as a partner, member, manager, director, an officer or employee of, or consultant or advisor to, or in any manner own, control, manage, operate or otherwise participate or invest in, or be connected with (in each case, other than (i) except as does not directly relate to the Business and (ii) David Lipman under the Employment Agreement or Marilyn Lipman or John Nimmo as employees of either of the Kid Biz Companies as provided in Section 7.7 below), any Person that engages in the Business conducted by the Kidz Biz Companies, or authorize the use of its name in connection therewith within the geographic area in which Kidz Biz Companies conducted their respective businesses at the date hereof, or (b) for itself or on behalf of any other Person, other than in response to a general solicitation or advertisement, employ, engage or retain any Person who at any time during the preceding twelve (12) month period shall have been an employee of either of the Kidz Biz Companies, or contact any supplier, customer or employee of either of the Kidz Biz Companies for the purpose of soliciting or diverting any such supplier, customer or employee from Kidz Biz UK or Far East. The foregoing provisions notwithstanding, any Shareholder may invest his funds in securities of an issuer if the securities of such issuer are listed for trading on a registered securities exchange or actively traded in the over-the-counter market and the Shareholders' aggregate holdings therein represent less than 5% of the total number of shares or principal amount of the securities of such issuer then outstanding. The Shareholders acknowledge that the provisions of this

Section, and the period of time, geographic area and scope and type of restrictions on their activities set forth herein, are reasonable and necessary for the protection of JAKKS Pacific and are an essential inducement to JAKKS Pacific entering into this Agreement.

7.2 Confidentiality. Except as otherwise provided in this Section 7.2, from and after the Closing Date, the Shareholders shall keep absolutely confidential all confidential or proprietary information on the Closing Date relating to the Kidz Biz Companies, including without limitation all of Kidz Biz Companies' Trade Rights, product information, customer and supplier lists, marketing and sales data, personnel and financing and Tax matters. The Shareholders acknowledge that the confidentiality of all such information is absolutely essential to the operation of the Business. No Shareholder shall, at any time after the date hereof, use or disclose to any Person any such information, without JAKKS Pacific's prior written consent, except as may be required by Law or an Order (in which case, where reasonably feasible, such Shareholder shall promptly give notice to JAKKS Pacific of any demand, subpoena, Order or legal process requiring disclosure so that JAKKS Pacific may oppose such disclosure or seek a protective Order or other confidential treatment of such information), unless such Shareholder can demonstrate that such information (i) has become, at any time after the Closing Date, generally available in the public domain or (ii) was already known to a Person to whom he discloses such information other than, in either case, through the disclosure of such information in violation of any confidentiality obligation to or for the benefit of JAKKS Pacific or either of the Kidz Biz Companies.

7.3 Non-Disparagement. No Party hereto shall, at any time after the date hereof, directly or indirectly disparage or demean, or make, encourage, support or concur in any statement (written or oral) which disparages or demeans in any manner, whether for a commercial purpose or otherwise, any other Party hereto or any Affiliate thereof, or any stockholder, director, officer, employee or agent of any of them; provided that no provision of this Section 7.3 shall be construed to prohibit or restrict any statement by any Person made in furtherance or defense of any Material Adverse Effect or in the course of any Proceeding or the resolution of any dispute pursuant to Section 7.5.

#### 7.4 Operation of Kidz Biz Business.

(a) JAKKS Pacific shall cause the Kidz Biz Companies to, and the Kidz Biz Companies shall, operate the Business throughout the balance of 2001 and the Earn-Out Years in a

manner consistent with JAKKS Pacific's customary business practices and policies, and JAKKS Pacific shall procure that neither of the Kidz Biz Companies shall take any action for the purpose of reducing the Earn-Out or limiting or adversely affecting the ability of the Shareholders to achieve the financial conditions for the Earn-Out under Section 2.3. JAKKS Pacific shall not, during the Earn-Out Years, unreasonably require that the Business be operated substantially differently from how the Business was operated prior to the Closing Date.

(b) JAKKS Pacific and Kidz Biz shall maintain complete and correct records relating to the determination of the Earn-Out, and shall permit the Shareholders and their authorized representatives, from time to time during normal business hours and upon reasonable prior written Notice, to examine and to audit such records (including ledgers, work papers and other relevant documents and information) in order to confirm JAKKS Pacific's and Kidz Biz's compliance with the provisions of this Section 7.4 and to verify the Earn-Out for any Earn-Out Year. JAKKS Pacific and Kidz Biz shall cooperate with such examination and make available appropriate financial and accounting personnel to respond to inquiries relating thereto. Any information so disclosed to any Shareholder or his authorized representative shall be subject to the confidentiality restrictions of Section 7.2; provided that no provision of Section 7.2 shall be constructed to prohibit or restrict any statement by any Person made in furtherance or defense of any Material Adverse Effect or in the course of any Proceeding or the resolution of any dispute pursuant to Section 7.5.

(c) Promptly following the Closing, Kidz Biz UK shall enter into the Clockhouse Lease, subject to approval by JAKKS Pacific, which will not be unreasonably withheld provided that JAKKS Pacific is reasonably satisfied that the rental rate is commercially fair on an arms-length basis to Kidz Biz UK, and JAKKS Pacific shall enter into a guarantee of Kidz Biz UK's obligations under the Clockhouse Lease, such guarantee to be in the agreed terms.

7.5 Resolution of Financial Disputes. If JAKKS Pacific, the Agent and the Shareholders, or any of them, at any time, disagree with the determination of any amount made or certified by another Party hereto, including the Earn-Out for any Earn-Out Year, such Party shall, within forty-five (45) days of delivery of such determination or certificate, give written Notice (the "Dispute Notice") to the other

Parties to such effect, setting forth therein any change proposed by it and, in reasonable detail, its objections to such determination and the reasons for such change. In such event, unless the Parties involved promptly, and, in any event, within thirty (30) days of the giving of the Dispute Notice, resolve all such objections and agree upon the determination of the amount in dispute, the determination thereof shall be promptly referred to its regular independent certified public accountants, who shall confer and attempt to resolve the objections as to such determination set forth in or arising as a consequence of the Dispute Notice. If, within thirty (30) days of such referral, such accountants resolve such dispute and determine the amount, they shall give Notices to the Parties involved to such effect, setting forth therein the amount as so determined and the basis therefor, and such determination shall be final and binding on the Parties involved. If such accountants do not make such determination within such thirty (30) day period, the Parties involved shall refer such dispute to a mutually agreeable internationally-recognized accounting firm that is "independent" with respect to the Parties hereto (the "Neutral Accountants"). Unless the Neutral Accountants expressly determine otherwise, each of the Parties involved shall submit to the Neutral Accountants (a) within ten (10) days of the engagement thereof, and in such form and manner as they may prescribe, a statement setting forth such Party's position with respect to each of the objections or other issues set forth in or arising as a consequence of the Dispute Notice, together with any exhibits or other supporting documents relating thereto, and send a copy thereof to each other Party involved, and (b) within ten (10) days thereafter, and in such form and manner as the Neutral Accountants may prescribe, a rebuttal statement responding to the initial statement of each other Party, together with any exhibits or other supporting documents relating thereto, and send a copy thereof to each other Party involved. The Neutral Accountants shall conduct a hearing, if all the Parties involved so request in its statements, and may conduct a hearing, whether or not any (but fewer than all) the Parties involved so request, if the Neutral Accountants reasonably deem it necessary for the performance of their engagement; provided that any such hearing shall be held only upon reasonable prior written Notice to all Parties involved and only if all such Parties have an opportunity to appear and present evidence at such hearing. The Neutral Accountants may require any Party hereto (whether or not a party to the dispute) to submit or produce additional statements, documents or information, to appear and testify at any hearing or other proceeding, or otherwise to produce tangible or oral evidence to the extent such Neutral Accountants reasonably deem necessary or appropriate for them to determine the amount in dispute. Based on such submissions and the evidence presented at any hearing, the Neutral Accountants shall resolve all obligations and other issues set forth in or arising as a consequence of the Dispute Notice and determine the amount in dispute, and give Notice to the Parties involved, setting forth therein such

amount and the basis of determination thereof, such determination to be final and binding on the Parties involved. Upon the determination of the amount, any payment or adjustment based thereon shall be promptly made in the manner provided herein. The fees and expenses of a Party's independent certified public accountants incurred in the determination of such amount as provided herein shall be separately borne by such Party. The fees and expenses of the Neutral Accountants incurred, if required pursuant to this Section 7.5, shall be borne and promptly paid equally by JAKKS Pacific, on the one hand, and the Shareholders, on the other.

7.6 Tax & Financial Matters; Books and Records. After the Closing, JAKKS Pacific shall procure that the Kidz Biz Companies shall:

(a) prepare and file all English or Hong Kong Tax returns or reports of the Kidz Biz Companies for any period ending on or before the Closing Date which shall not have been filed prior to the Closing Date; provided, however, that at least ten (10) days prior to the proposed date of filing thereof, JAKKS Pacific shall deliver a copy thereof to the Shareholders, who may review the same and, if he or she so desires, have a reasonable opportunity to make inquiries or discuss the same with appropriate personnel designated by JAKKS Pacific, and JAKKS Pacific shall procure that the Kid Biz Companies make any revision thereto requested by the Agent which may affect the interests of any Shareholder and is reasonably acceptable to JAKKS Pacific; it being further agreed that for such Tax and financial statement purposes the Acquisition of the Shares shall be deemed to have taken effect on October 1, 2001;

(b) not make any amendment to any Tax return or report of the Kidz Biz Companies filed prior to the Closing Date without the prior written consent of the Agent, if such amendment would result in a material liability to any Shareholder, unless at least thirty (30) days prior to the filing thereof, JAKKS Pacific gives to the Agent written Notice of such amendment, including a copy thereof, and either such Notice is accompanied by a certificate of JAKKS Pacific's Chief Financial Officer to the effect that such amendment is required to be filed by applicable Law or the Agent fails to deliver to JAKKS Pacific within fifteen (15) days of his receipt of the Notice of such amendment a written Notice objecting to such amendment, setting forth therein in reasonable detail the basis for such objection, the changes, if any, he asserts are required to be made therein and appropriate indemnification of JAKKS Pacific with respect to any Tax it may incur by reason of such change, in which latter case, JAKKS Pacific and the Agent shall

promptly confer and attempt to resolve such objections or, if they fail to promptly do so, submit such dispute for resolution in accordance with Section 7.5;

(c) not agree to any extension or tolling of any statute of limitations under any applicable Tax Law with respect to any matter for which any Shareholder may have any liability, without the prior written consent of such Shareholder; and

(d) maintain, until the seventh anniversary of the Closing Date, all accounting ledgers, books and records of the Kidz Biz Companies with respect to the periods ending on or before the Closing Date and permit any Shareholder reasonable access thereto in connection with the preparation of financial reports, Tax returns, Tax audits or the defense or prosecution of any Proceeding.

Any information so delivered to the Agent or any Shareholder pursuant to this Section 7.6 shall be subject to the confidentiality restrictions of Section 7.2.

7.7 Employment of Marilyn Lipman and John Nimmo . For a period of six (6) months following the Closing, each of Marilyn Lipman and John Nimmo shall continue to be employed by Kidz Biz UK to perform such duties as were respectively performed by each of them prior to the Closing (or such other duties as may be reasonably assigned to them by Kidz Biz UK which are not inconsistent with the duties and responsibilities performed by them prior to Closing), at salaries of Pound Sterling10,000 per annum; provided that the maximum period of time that each of them shall be required to make available and spend to carry out such duties will be limited to 16 hours per week.

7.8 Shareholders' Guarantees of Kidz Biz Companies Obligations. JAKKS Pacific shall procure that as soon as reasonably practicable after Closing that the Shareholders shall be released from all guarantees and indemnities given by them or any of them or their Affiliates (other than under this Agreement) in respect of the obligations and liabilities of the Kidz Biz Companies and, pending such release, JAKKS Pacific shall with effect from the date hereof indemnify the Shareholders and keep each of them fully and effectively indemnified from and against all liabilities in connection therewith.

8. Indemnification.

8.1 Shareholders' Indemnity. Each Shareholder, severally but not jointly (except for David Lipman and Marilyn Lipman, whose liability shall be joint and several), shall indemnify and defend JAKKS Pacific and, after the Closing, each director and officer of JAKKS Pacific, and hold each of them harmless from, any loss, liability, obligation, damage or expense (including reasonable attorneys' fees and disbursements) which any of them may suffer or incur incidental to any Material Adverse Effect or any Proceeding against any of them arising out of, based upon or resulting from:

(a) the failure of any representation or warranty made by that Shareholder herein or in any Acquisition Document delivered to JAKKS Pacific in connection herewith to be true in all material respects on the date hereof; provided, however, that in the case of a failure of any of the representations and warranties contained in Section 4, only the Shareholder whose representation and warranty was inaccurate or breached shall have an obligation of indemnification under this Article 8; and further provided, however, that notwithstanding the foregoing, the obligations of David Lipman and Marilyn Lipman shall be joint and several;

(b) that Shareholder's failure, in all material respects, to perform or to comply with any covenant or condition required hereunder to be performed or complied with by that Shareholder.

#### 8.2 JAKKS Pacific's Indemnity.

(a) JAKKS Pacific shall indemnify and defend each Shareholder against, and hold each of them harmless from, any loss, liability, obligation, damage or expense (including reasonable attorneys' fees and disbursements) which any of them may suffer or incur incidental to any Material Adverse Effect or any Proceeding against any of them arising out of, based upon or resulting from:

(i) the failure of any representation or warranty made by JAKKS Pacific herein or in any Acquisition Document delivered to that Shareholder in connection herewith to be true in all material respects on the date hereof and on the Closing Date;

(ii) JAKKS Pacific's failure, in all material respects, to perform or to comply with any covenant or condition required hereunder to be performed or complied with by JAKKS Pacific.



(b) In addition to the foregoing provisions of Section 8.2(a), JAKKS Pacific and the Successor Company (if any, as such term is defined below) shall jointly and severally indemnify and hold each Shareholder harmless, on a net of Tax basis, for any additional United Kingdom capital gains tax liability incurred by the Shareholder as a consequence of any loss of taper relief suffered by the Shareholder as a consequence of any of the following enumerated acts events or omissions carried out by JAKKS Pacific or the Successor Company or any of their Affiliates or their subsidiaries or holding companies or subsidiaries of such holding companies voluntarily after Closing consisting of:

(i) anything which causes the employment and/or directorship of any Shareholder with Kidz Biz UK to cease in circumstances or as a consequence of circumstances which amount to a breach of contract by Kidz Biz UK;

(ii) anything which causes either or both of the Kidz Biz Companies to cease to be a subsidiary or subsidiaries of JAKKS Pacific or the Successor Company;

(iii) anything which causes JAKKS Pacific or the Successor Company to cease to be a trading company or the holding company of a trading group;

(iv) anything which causes JAKKS Pacific or the Successor Company to become owned or controlled either directly or indirectly by five or fewer persons (and their Affiliates) or by its directors; and

(v) a re-organization or re-construction of the share capital of JAKKS Pacific or the Successor Company on a previous application of section 8.2.(v) (2) (if any) except in circumstances where the shares ("new shares") replacing the Common Stock of JAKKS Pacific or the shares of such other company are either:

(1) new shares in JAKKS Pacific or the other company; or

(2) new shares in a company (the "Successor Company") which is or immediately becomes a holding company of JAKKS Pacific or the other company

As an example of the operation of the foregoing provisions, a transfer by JAKKS Pacific of the shares of one or both of the Kidz Biz Companies to a wholly owned subsidiary of JAKKS Pacific would not be an event described above that could result in the loss of taper relief by a Shareholder.

The indemnification obligations set out in this Section 8.2(b) shall terminate with respect to any loss of taper relief suffered by a Shareholder (i) on December 31, 2002 as to the JAKKS Pacific Shares, and (ii) on December 31, 2003 as to the any Earn-Out Shares, and the maximum amount of JAKKS Pacific's liability for all Claims under this Section 8.2(b) shall not exceed US\$600,000.00.

8.3 Claims Procedure. Promptly after Notice to an indemnified party of any Material Adverse Effect or the commencement of any Proceeding by a third party involving any loss, liability, obligation, damage or expense referred to in Section 8.1 or 8.2, such indemnified party shall, if a Material Adverse Effect for indemnification in respect thereof is to be made against an indemnifying party, give written Notice to the latter of the commencement of such Material Adverse Effect or Proceeding, setting forth in reasonable detail the nature thereof and the basis upon which such party seeks indemnification hereunder; provided that the failure of any indemnified party to give such Notice shall not relieve the indemnifying party of its obligations under such Section, except to the extent that the indemnifying party is actually prejudiced by the failure to give such Notice. In case any such Proceeding is brought against an indemnified party, and provided that proper Notice is duly given, the indemnifying party shall assume and control the defense thereof insofar as such Proceeding involves any loss, liability, obligation, damage or expense in respect of which indemnification may be sought hereunder, with counsel selected by the indemnifying party (and reasonably satisfactory to such indemnified party), and, after Notice from the indemnifying party to such indemnified party of its assumption of the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof (but the indemnified party shall have the right, but not the obligation, to participate at its own cost and expense in such defense by counsel of its own choice) or for any amounts paid or foregone by the indemnified party as a result of the settlement or compromise thereof (without the written consent of the indemnifying party), except that, if both the indemnifying party and the indemnified party are named as parties or subject to such Proceeding and either such party reasonably determines with advice of counsel that a material conflict of interest between such parties may exist in respect of such Proceeding, the indemnifying party may decline to assume the defense on behalf of the indemnified party or the indemnified party may retain the defense on its own behalf, and, in either such case, after Notice to such effect is duly given hereunder to the other party, the indemnifying party shall be relieved of its obligation to assume the defense on behalf of the indemnified party, but shall be required to pay any legal or other expenses, including without limitation reasonable attorneys' fees and disbursements incurred by the indemnified party in such defense; provided, however, that the indemnifying party shall not be liable for such expenses on account of more than one separate firm of attorneys (and, if necessary, local counsel) at any time representing such indemnified party in connection with any Proceeding or separate Proceedings in the same jurisdiction arising out of or based upon substantially the same allegations or circumstances. If the indemnifying party shall assume the

defense of any such Proceeding, the indemnified party shall cooperate fully with the indemnifying party and shall appear and give testimony, produce documents and other tangible evidence, allow the indemnifying party access to the books and records of the indemnified party and otherwise assist the indemnifying party in conducting such defense. No indemnifying party shall, without the consent of the indemnified party, which consent shall not be unreasonably withheld, consent to entry of any judgment or enter into any settlement or compromise which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such Material Adverse Effect or Proceeding. Provided that proper Notice is duly given, if the indemnifying party shall fail promptly and diligently to assume the defense thereof, if and in the manner required hereunder, the indemnified party may respond to, contest and defend against such Proceeding (but the indemnifying party shall have the right to participate at its own cost and expense in such defense by counsel of its own choice) and may make in good faith any compromise or settlement with respect thereto, and recover the entire cost and expense thereof, including, without limitation, reasonable attorneys' fees and disbursements and all amounts paid or foregone as a result of such Proceeding, or the settlement or compromise thereof, from the indemnifying party. Any indemnification required to be made hereunder shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills or invoices are received or loss, liability, obligation, damage or expense is actually suffered or incurred. This Section 8.3 is subject to the provisions of Section 8.5 in respect of any Claim for Tax.

8.4 Limitations. Any other provision hereof notwithstanding:

(i) no indemnifying party shall be required to indemnify any Person unless and until the aggregate amount of loss, liability, obligation, damage or expense as to which indemnification would be required from all the Shareholders, collectively, under Section 8.1(a), or JAKKS Pacific, under Section 8.2(a), as the case may be, but for the provisions of this Section 8.4, exceeds US\$50,000, and thereafter the indemnifying party shall be required, in the manner and to the extent otherwise provided in this Article, to indemnify any Person and to pay all amounts otherwise required to be paid by the indemnifying party to the extent of the entire loss, liability, obligation, damage or expense suffered or incurred by such Person; the foregoing notwithstanding, JAKKS Pacific's Securities Claims, Shareholder Securities Claims, any Material Adverse Effect for indemnification based upon a breach of the representations and warranties made in the last four sentences of Sections 4.1 and 4.2 (including, without limitation, the shareholders of the Kidz Biz Companies as set forth on Schedule I), all

of Section 4.3 and any Dragon Ball Z Claim shall not be subject to, or included in calculating, the limitations contained in this clause 8.4(i);

(ii) the aggregate amount required to be paid under Section 8.1(a) pursuant to this Article 8 for any Claims for indemnification under this Agreement (including, but not limited to Claims based upon a breach of the representations and warranties made in the last four sentences of Sections 4.1 and 4.2, all of Section 4.3, the Dragon Ball Z Claims, Financial Claims, and any of the other provisions of Section 4) by David Lipman and Marilyn Lipman in the aggregate shall not exceed US\$6,000,000.00 with respect to all Claims for indemnification, and (ii) by John Nimmo in the aggregate shall not exceed US\$6,000,000.00 with respect to all Claims for indemnification.

(iii) the aggregate amount required to be paid under Section 8.2 pursuant to this Article 8 by JAKKS Pacific shall not exceed US\$12,000,000.00 with respect to all Claims for indemnification;

(iv) the amount to be paid by David Lipman and Marilyn Lipman on the one hand and John Nimmo on the other hand shall not exceed (i) US\$250,000.00 in aggregate with respect to the Dragon Ball Z Claims, and (ii) US\$250,000.00 in aggregate with respect to the Financial Claims;

(v) the indemnification obligations provided herein shall terminate with respect to any Material Adverse Effect for indemnification arising under Section 8.1(a) or Section 8.2(a) that is not made prior to the second anniversary of the Closing Date, except that any Claim under the last four sentences of Section 4.1 and Section 4.2, or arising under Section 8.1(b) or Section 8.2(b), or for Securities Claims under the Registration Rights Agreement shall not be so limited under this Section and shall terminate in accordance with the statute of limitations of applicable Law, and the obligation to indemnify for the Holdback Claims shall terminate with respect to any Holdback Claim that is not made during the Holdback Period;

(vi) if JAKKS Pacific is entitled to receive indemnification from any of the Shareholders pursuant to Section 8.1 or pursuant to the Registration Rights Agreement, JAKKS Pacific may, upon thirty (30) days prior written Notice to the Agent, offset and retain the amount thereof from any payment of the Earn-Out otherwise payable hereunder to that Shareholder;

(vii) no indemnified party shall be entitled to any indemnification under this Article 8 (i) to the extent that it actually receives or is entitled to receive any amount in respect of any loss, liability, obligation, damage or expense from other sources, including without limitation insurance or third-party indemnity or (ii) to the extent the matter in question, taken together with all similar matters, does not exceed the amount of any reserves with respect to such matters which are reflected in the Financial Statements;

(viii) A Party shall not be entitled to recover under this Article 8:

(1) with respect to consequential damages, including damages for lost profits, or with respect to punitive, exemplary or special damages;

(2) with respect to any failure of warranty or covenant by the other Party which is contained herein if at or before the time of Closing, the Party seeking recovery had actual knowledge of the failure of warranty or covenant;

(ix) the amount of any recovery pursuant to this Article 8 shall be net of any foreign (non-U.S.), U.S. federal, U.S. state and/or local Tax benefits inuring to the indemnified party as a result of the state of facts which entitled the indemnified party to recover from the indemnifying party pursuant to Article 8;

(x) no Shareholder shall be liable for indemnification to JAKKS Pacific with respect to any Material Adverse Effect of JAKKS Pacific which is indemnifiable hereunder in an amount which exceeds such Shareholder's pro-rata portion of the aggregate amount of such Claim (such pro rata portion being computed on the basis of the ratio of the total number of Shares owned by such Shareholder immediately prior to the Closing to the total number of Shares outstanding (except that all such computations with respect to David Lipman and/or Marilyn Lipman shall be made as to the number of Shares owned by them in the aggregate)).

#### 8.5 Provisions Regarding Tax Claims.

(a) Limitations on Tax Claims. No Claim shall be made against the Shareholders under Section 2.4 or Section 8 or for breach of any of the representations or warranties to the extent that it relates to any Tax Claim, Claim for Tax or Tax liability or Tax affairs of any Kidz Biz Company and

(i) the matter to which it relates was disclosed in the Disclosure Schedules; or

(ii) the Tax liability to which it relates was discharged before Closing; or

(iii) the Tax liability to which it relates is a liability which is the subject of a reserve or provision in the Financial Statements; or

(iv) the Tax liability to which it relates arises in respect of any income profits or gains earned accrued or received by any Kidz Biz Company or in the ordinary course of any such company's business at time on or after September 30, 2001; or

(v) the Tax liability to which the Claim would relate (but for this clause 8.5(a)(v) arises as a result of a change after Closing in any accounting bases or policy used for the purposes of drawing up the accounts of any Kidz Biz Company or in the application of such bases or policies; or

(vi) the Tax liability to which the Claim would relate (but for this clause 8.5(a)(vi)) arises or is increased as a result of the loss or unavailability of any Relief which would (were it not for the said loss) have been available to any Kidz Biz Company and which is an asset in the Financial Statements or has been taken into account in computing (and so reducing) any provision for tax in the Financial Statements and the Relief is lost or is unavailable as a result of a failure by any Kidz Biz Company to make after Closing any of the claims or elections in respect of the Relief within the time limits or as a result of the making of a disclaimer after Closing of a Relief; or

(vii) the fact, matter or circumstances giving rise to the Claim has also given rise to a Claim under any other provision of this Agreement and the sum payable in respect of such equivalent Claim has been recovered; or

(viii) the Tax liability to which the Claim relates comprises of interest, penalty, surcharge or fines and which has arisen or is increased as a result of a failure on the part of any Kidz Biz Company or JAKKS Pacific to pay a Tax liability (the "Underlying Tax Liability") in connection with which any interest, penalty, surcharge or fine has been made within ten (10) Business Days of the date on which JAKKS Pacific receives any amount payable by the Shareholders pursuant to any Claim by JAKKS Pacific against the Shareholders in respect of the Underlying Tax Liability or where no Claim arises or may be made against the Shareholders in respect of the Underlying Tax liability, or

(ix) the Claim would (but for this clause 8.5(a)(ix)) relate to:

(1) a primary Tax liability of any Kidz Biz Company or any Affiliate of JAKKS Pacific which would not have arisen or would not have been

capable of practical enforcement but for JAKKS Pacific or any Affiliate of JAKKS Pacific having or obtaining a presence for Tax purposes in any jurisdiction other than the United Kingdom or Hong Kong or which would not have arisen but for the Kidz Biz Company joining the same group as JAKKS Pacific or any Affiliate of JAKKS Pacific as a consequence of or after Closing; or

(2) a secondary Tax liability of any Kidz Biz Company which is also a primary Tax liability of JAKKS Pacific or any Affiliate of JAKKS Pacific; or

(x) it relates to any Tax liability which arises as a result of any event act or omission by JAKKS Pacific or any Affiliate of JAKKS Pacific (including any Kidz Biz Company) after Closing, unless such act event or omission is carried out by JAKKS Pacific or such Affiliate pursuant to an obligation imposed by statute; or

(xi) it relates to any stamp duty or stamp reserve tax payable on or in respect of this Agreement or the transfer of the Kidz Biz Shares pursuant to the Agreement; or

(xii) it relates to any Tax liability which would not have arisen but for the coming into force of any legislation or the withdrawal or alteration of any published extra-statutory concession of any Tax Authority after Closing.

(b) Conduct of Claims for Tax.

(i) JAKKS Pacific shall give notice to the Shareholders of any Claim for Tax in respect of a Tax liability for which the Shareholders are or may be liable under this Agreement within ten (10) business days of JAKKS Pacific or any Kidz Biz Company receiving the Claim for Tax;

(ii) If other Claims for indemnification of JAKKS Pacific under this Section 8, do not, when taken together with the Claim for Tax, exceed the limitations set forth in Section 8.4 of this Agreement upon the amount of the indemnification obligations of the Shareholders to which the Claim for Tax relates, the relevant Shareholders jointly shall be entitled (and JAKKS Pacific shall procure that they are so entitled) to resist any such Claim for Tax in the name of JAKKS Pacific or the relevant Kidz Biz Company as the case may be and to have made available information and documents of the Kidz Biz Company reasonably necessary for the purpose of such resistance provided that:

(1) within twenty (20) business days of the service of notice of the Claim of Tax pursuant to clause 8.5(b)(i) above, JAKKS Pacific and the relevant Kidz Biz Company is

indemnified to its reasonable satisfaction by the relevant Shareholders against all losses (including additional Tax liability), costs, damages and expenses which may be incurred in resisting the Claim for Tax provided that where the Claim for Tax would, in the absence of an appeal being made within applicable time limits, become final, the relevant Kidz Biz Company shall at the cost and request of the relevant Shareholders file the appeal whether or not such indemnity has been provided by the Shareholders; and

(2) the Shareholders have been advised by an independent tax adviser, acceptable to JAKKS Pacific in its reasonable discretion, after disclosure of all relevant information and documents, that it is reasonable to resist the Claim for Tax in the manner proposed by the Shareholders.

(iii) The relevant Kidz Biz Company shall be kept fully informed of all material matters pertaining to the Claim for Tax and all steps proposed to be taken by the Shareholders.

(iv) Nothing in this clause shall prevent any Kidz Biz Company or JAKKS Pacific or any Affiliate of JAKKS Pacific from paying or discharging the Tax Liability (or any part of it) which is the subject of the Claim for Tax provided it does so (and JAKKS Pacific shall procure that if any such person makes or discharges any such liability it does, does so) without admitting liability for it.

(v) Subject to clauses 8.5(b)(vi) and 8.5(b)(vii), if as a consequence of any action taken under clause 8.5(b)(1), JAKKS Pacific, any Affiliate of JAKKS Pacific or any Kidz Biz Company receives any benefit, an amount equal to the value of the benefit will be payable by JAKKS Pacific to the Shareholders to the extent it exceeds any other amount due from the Shareholders to JAKKS Pacific under this Section 8 at the time such benefit is received by JAKKS Pacific, an Affiliate of JAKKS Pacific or any Kidz Biz Company, and otherwise the other amounts due from the Shareholders to JAKKS Pacific shall be reduced by the amount of such benefit.

(vi) For the purposes of clause 8.5(b)(v) the value of the benefit received will be:

(1) where the benefit is a payment from a Tax authority, the amount of the payment (including any payment received in respect of costs and interest supplement);

(2) where the benefit is the reinstatement of a Relief, an amount equal to the amount paid by the Shareholders in respect of the loss or set-off of such Relief;

(3) where the benefit is the reinstatement of any shares or assets (the enforcement or exercise of any mortgage or charge or power of sale over which gave rise to the



Shareholders' liability under this Agreement), an amount equal to the amount paid by the Shareholders to JAKKS Pacific as a consequence of such enforcement or exercise;

(4) where the benefit is the grant of a Relief to any Kidz Biz Company or JAKKS Pacific or any Affiliate of JAKKS Pacific, an amount equal to the amount of the Relief, unless the Relief on utilization would operate as a deduction from gross income, profits or gains, in which case an amount equal to such amount of Tax as the utilization of the Relief saves for the JAKKS Pacific, an Affiliate of JAKKS Pacific or any Kidz Biz Company.

(vii) The amount payable by JAKKS Pacific to the Shareholders pursuant to clause 8.5(b)(vi), shall be paid within thirty (30) days of the date on which the benefit is received. For these purposes the benefit will be deemed to be received on:

(1) where the benefit is a payment from a Tax authority, the date of receipt of the payment;

(2) where the benefit is the reinstatement of a Relief, the date of receipt of written confirmation from the relevant Tax authority of such reinstatement;

(3) where the benefit is the reinstatement of any shares or assets (the enforcement or exercise of any mortgage or charge or power of sale over which gave rise to the Shareholders' liability under this Agreement), the date of such reinstatement;

(4) where the benefit is the grant of a Relief, the date on which an actual payment of Tax by the JAKKS Pacific or any Kidz Biz Company or any Affiliate of JAKKS Pacific is mitigated by the use of such Relief.

8.6 Indemnification Exclusive Remedy. Indemnification pursuant to the provisions of this Article 8 shall be the exclusive remedy of the Parties for failure of any warranty or covenant contained herein or in any Acquisition Document, other than the covenants contained in Sections 7.1 and 7.2. The only legal action which may be asserted by any Party with respect to any matter which is the subject of this Article 8 shall be a contract action to enforce, or to recover damages for breach, of this Article 8. Without limiting the generality of the preceding sentence, no legal action sounding in tort or strict liability may be maintained by any Party.

9. Miscellaneous.

9.1 Survival of Representations and Warranties. Subject to Section 8.4(viii) the representations and warranties of each Party hereto contained in this Agreement shall survive the Closing, notwithstanding any investigation or inquiry made by any other Party hereto.

9.2 Limitation of Authority. Except as expressly provided herein, no provision hereof shall be deemed to create any partnership, joint venture or joint enterprise or association among the Parties hereto, or to authorize or to empower any Party hereto to act on behalf of, obligate or bind any other Party hereto.

9.3 Fees and Expenses. Each Party hereto shall bear such fees and expenses as may be incurred by it in connection with this Agreement and the Acquisition. All the stamp duty to be incurred in connection with this Agreement and the Acquisition shall be borne by the Purchaser.

9.4 Notices. Any Notice or demand required or permitted to be given or made hereunder to or upon any Party hereto shall be deemed to have been duly given or made for all purposes if in writing and (i) if sent by messenger or Federal Express or internationally recognized courier service, or by priority overnight delivery between any two points within the U.S. or any two points within the U.K., on the business day next following the date such Notice or demand was delivered, or (ii) if sent by priority overnight delivery between any point within the U.S. and any point outside of the U.S., or between any point within the U.K. and any point outside of the U.K., or between any two points outside of the U.S. or the U.K., three (3) business days next following the date such Notice or demand was delivered; or (iii) if sent by mail, three (3) business days after deposit in the mails, if mailed by certified or registered mail (return receipt requested) between any two points within the U.S. or any two points within the U.K., and seven (7) business days if mailed by certified or registered mail (return receipt requested) between any point within the U.S. and any point outside of the U.S., or between any point within the U.K. and any point outside of the U.K., or between any two points outside of the U.S. or the U.K., or (iv) if sent by telegram, teletype (confirmed to the sender), telex or similar electronic means, the business day next following the date such notice or demand was so transmitted, provided that a written copy thereof is sent on the same day by postage-paid first-class mail, to such Party at the following address:

if to JAKKS Pacific: JAKKS Pacific, Inc.  
22619 Pacific Coast Highway  
Malibu, California 90265  
Attn: President  
Fax: (310) 317-8527

and to: Feder, Kaszovitz, Isaacson,  
Weber, Skala, Bass & Rhine LLP  
750 Lexington Avenue  
New York, New York 10022-1200 U.S.  
Attn: Geoffrey A. Bass, Esq.  
Fax: (212) 888-7776

to David Lipman or  
Marilyn Lipman at: David S. Lipman  
Castilian House  
The Ridge  
Epsom, Surrey KT18 1BS  
United Kingdom  
Fax:

to John Nimmo: John Nimmo  
Morwell  
5 Grays Lane  
Ashtead, Surrey KT21 1BS  
United Kingdom  
Fax:

with a copy to: Altheimer & Gray  
10 South Wacker Drive  
Chicago, Illinois 60606-7482 U.S.  
Attn: Jonathan Baird, Esq  
Fax: 312-715-4800

and to: Altheimer & Gray  
7 Bishopsgate  
London EC2N 3AR  
United Kingdom  
Fax: 020-7786-0000  
Attn: Dean Harper, Esq.

or such other address as any Party hereto may at any time, or from time to time,  
direct by Notice given to the other Parties in accordance with this Section.  
Except as otherwise expressly provided herein, the date of giving or making of  
any such Notice or demand shall be, in the case of clause (a) (i), the date of  
the

receipt; in the case of clause (a) (ii), three business days after such Notice or demand is sent; and, in the case of clause (b), the business day next following the date such Notice or demand is sent.

9.5 Amendment. Except as otherwise expressly provided herein, no amendment of this Agreement shall be valid or effective, unless in writing and signed by or on behalf of the Parties hereto.

9.6 Waiver. No course of dealing or omission or delay on the part of any Party hereto in asserting or exercising any right hereunder shall constitute or operate as a waiver of any such right. No waiver of any provision hereof shall be effective, unless in writing and signed by or on behalf of the Party to be charged therewith. No waiver shall be deemed a continuing waiver or waiver in respect of any other or subsequent breach or default, unless expressly so stated in writing.

9.7 Exchange Rate. Whenever any calculation in this Agreement requires conversion of a currency into or from US\$, the average exchange rate published in the Wall Street Journal, New York, New York, USA as of the five (5) business days immediately preceding the date that the relevant payment is due, if the calculation involves a payment, or the date when any other calculation is due to be made under this Agreement, shall be the exchange rate used in converting such amount into or from US\$.

9.8 Governing Law. This Agreement shall be governed by, and interpreted and enforced in accordance with, the laws of the State of New York without regard to principles of choice of law or conflict of laws. For the purpose of enforcing the provisions of Section 9.9 of this Agreement and any other remedy available to a Party under this Agreement, each Party to this Agreement submits to the jurisdiction of the courts of the State of New York, located in New York County, New York, U.S., and to the jurisdiction of the U.S. District Court for the Southern District of New York, New York, New York, U.S. with respect to any matter arising out of this Agreement, waives any objection to venue in the Counties of New York, State of New York, or such District, and agrees that service of any summons, complaint, Notice or other process relating to such Proceeding may be effected in the manner provided by Section 9.4. If service of process is required to be made within the U.S., the Shareholders appoint as their agent for service of any process Corporation Service Company, 1177 Avenue of the Americas, 17th Floor, New York, New York 10036, or such other agent for service of process, located in the U.S. of which the Agent (or any Shareholder as to that Shareholder) gives Notice to JAKKS Pacific.

9.9 Arbitration. Any dispute or controversy between or among any of the Parties hereto shall be submitted to arbitration in New York, New York in accordance with the then current Commercial Arbitration Rules of the American Arbitration Association before a panel of three arbitrators. JAKKS Pacific, on the one hand, and the Shareholders shall each pay one-half of any filing fees or other administrative costs to be paid in advance of or during such Proceeding. The arbitrators shall render a reasoned decision with respect to such Proceeding which shall include, in addition to the imposition of monetary damages or any other remedy or relief available hereunder, an allocation of the costs thereof. The decision of the arbitrators shall be final and binding upon the parties to such Proceeding, and judgment thereon may be entered in any court of competent jurisdiction. The arbitrators shall have no power to change any of the provisions of this Agreement in any respect, nor shall they have any power to make an award of reformation, and the jurisdiction of the arbitrators is expressly limited accordingly. No Party hereto shall be liable for punitive damages, unless such Party is found to have committed fraud or willful malfeasance against another Party hereto. At least one of the arbitrators shall be an attorney admitted to the practice of law for at least fifteen (15) years with substantial experience in business and commercial transactions.

9.10 Remedies. Notwithstanding the provisions of Section 9.9, or any other provision of this Agreement, in the event of any actual or prospective breach or default by any Party hereto, any other Party hereto shall be entitled to equitable relief, including remedies in the nature of rescission, injunction and specific performance. Subject to the provisions of Sections 7.5, and 9.9 and Article 8, all remedies hereunder are cumulative and not exclusive, and nothing herein shall be deemed to prohibit or limit any Party from pursuing any other remedy or relief available at law or in equity for such actual or prospective breach or default, including the recovery of damages; provided, however, that the indemnification provisions of Article 8 shall be the sole and exclusive remedy, as among the Parties hereto, with respect to any Material Adverse Effect for monetary damages under this Agreement.

9.11 Severability. The provisions hereof are severable and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable in any respect by a court of competent jurisdiction, the remaining provisions hereof shall not be affected, but shall, subject to the discretion of such court, remain in full force and effect, and any invalid or unenforceable provision shall be deemed, without further action on the part of the Parties hereto, amended and limited to the extent necessary to render the same valid and enforceable.

9.12 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and which together shall constitute one and the same agreement.

9.13 Further Assurances. Each Party hereto agrees to cooperate fully with the other Parties in connection with preparing and filing any Notices or documents in connection with the Acquisition. Each Party hereto shall promptly execute, deliver, file or record such agreements, instruments, certificates and other documents and perform such other and further acts as any other Party hereto may reasonably request or as may otherwise be reasonably necessary or proper, to consummate and perfect the Acquisition.

9.14 Binding Effect. Subject to Section 9.15, this Agreement shall be binding upon and inure to the benefit of the Parties hereto and its successors and permitted assigns. This Agreement is not intended, and shall not be deemed, to create or confer any right or interest for the benefit of any Person not a Party hereto.

9.15 Assignment. This Agreement, and each right, interest and obligation hereunder, may not be assigned by any Party hereto without the prior written consent of the other Parties hereto, and any purported assignment without such consent shall be void and without effect; provided that any Shareholder may assign its right to receive all or any portion of the Purchase Price without the consent of any other Party hereto.

9.16 Titles and Captions. The titles and captions of the Articles and Sections of this Agreement are for convenience of reference only and do not in any way define or interpret the intent of the Parties or modify or otherwise affect any of the provisions hereof.

9.17 Grammatical Conventions. Whenever the context so requires, each pronoun or verb used herein shall be construed in the singular or the plural sense and each capitalized term defined herein and each pronoun used herein shall be construed in the masculine, feminine or neuter sense.

9.18 References. The terms "herein," "hereto," "hereof," "hereby" and "hereunder," and other terms of similar import, refer to this Agreement as a whole, and not to any Article, Section or other part hereof.

9.19 No Presumptions. Each Party hereto acknowledges that it has participated, with the advice of counsel, in the preparation of this Agreement. No Party hereto is entitled to any presumption with respect to the interpretation of any provision hereof or the resolution of any alleged ambiguity herein based on any claim that any other Party hereto drafted or controlled the drafting of this Agreement.

9.20 Exhibits and Schedules. The Exhibits, Schedules and Disclosure Schedules hereto are an integral part of this Agreement and are incorporated in their entirety herein by this reference.

9.21 Entire Agreement. This Agreement embodies the entire agreement of the Parties hereto with respect to the subject matter hereof and supersedes all prior agreements, commitments or arrangements relating thereto. The Parties make no representations or warranties to each other, except as contained in this Agreement, and any and all prior representations and warranties made by any Party or its representatives, whether orally or in writing, shall be deemed merged into this Agreement, it being intended that no such prior representations or warranties shall survive the execution of delivery of this Agreement.

IN WITNESS WHEREOF, JAKKS Pacific by its duly authorized officer, and the Shareholders, have executed this Agreement on the dates set forth below. JAKKS PACIFIC, INC.

By: /s/ STEPHEN G. BERMAN

-----  
Name: Stephen G. Berman  
Title: President and COO

Executed on: December 27, 2001

/s/ DAVID S. LIPMAN

-----  
David S. Lipman

Executed on: December 27, 2001

/s/ JOHN NIMMO

-----  
John Nimmo

Executed on: December 27, 2001

/s/ MARILYN LIPMAN

-----  
Marilyn Lipman

Executed on: December 27, 2001



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Schedule 1.54	Management Accounts
Schedule 4.11-A	Employees of Kidz Biz UK
Schedule 4.11-B	Employees of Far East

## SHAREHOLDERS OF KIDZ BIZ LIMITED

Shareholder -----	Number of Ordinary Shares Owned of Record -----	Payment Factor as to Portion of Purchase Price Paid to Kidz Biz Limited -----
David Lipman Castilian House The Ridge Epsom, Surrey United Kingdom	6,250	25%
Marilyn Lipman Castilian House The Ridge Epsom, Surrey United Kingdom	6,250	25%
John Nimmo Morwell 5 Grays Lane Ashtead, Surrey United Kingdom	12,500	50%

SHAREHOLDERS OF KIDZ BIZ FAR EAST LIMITED

Shareholder -----	Number of Far East Shares Owned of Record -----	Payment Factor as to Portion of Purchase Price Paid to Kidz Biz Far East Limited -----
David Stuart Lipman Castilian House The Ridge Epsom, Surrey United Kingdom	500	50%
John Nimmo Morwell 5 Grays Lane Ashtead, Surrey United Kingdom	500	50%

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KIDZ BIZ LIMITED  
AND  
KIDZ BIZ FAR EAST LIMITED  
INDEX OF DISCLOSURE DOCUMENTS

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1.	Printout from Companies House website dated 22 December 2001 of names of various companies.	3
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3.	Company details of Kidzbitz Limited.	1
4.	Kidz Biz Limited -- Directors' Report and Financial Statements for the year ended 31 December 2000.	15
5.	Kidz Biz Far East Limited -- Reports and Accounts for the year ended 31 December 2000.	19
6.	Kidz Biz Limited -- extract of notes to the financial statements for the years ended 31 December 1998, 1999 and 200.	6
7.	Invoice Discounting Agreement (Recourse) between The Royal Bank of Scotland Commercial Services Limited (1) and Kidz Biz Limited (2).	34
8.	Guarantee and Indemnity from David Lipman in favour of The Royal Bank of Scotland Commercial Services Limited.	6
9.	Guarantee and Indemnity from John Nimmo in favour of The Royal Bank of Scotland Commercial Services Limited.	6
10.	Addendum No. 1 to the Conditions of Purchase of Gemex Trading AG.	2
11.	Fax sent 3 August 2001 to Paul Haycroft incorporating: - Fax dated 13 December 2000 from Gemex Trading Limited; - Addendum No. 1 to the Conditions of Purchase of Gemex Trading AG; and - Directive 1993/44/EC of The European Parliament and of The Council of 25 May 1999.	5
12.	Fax dated 20 December 2001 from Louise Hughes (Universal) to David Lipman.	1
13.	Email dated 24 May 2001 from Louise Hughes to Simon Jones.	1
14.	Teletubbies Standard Merchandising Licence between BBC Worldwide Limited (1) and Kidz Biz Limited (2).	15



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15.	Invoices dated 18 April 2001 and 1 May 2001 from LEX Vehicle Partners Limited.	3
16.	BMW Contract Hire Unregulated Quotation dated 24 July 2001 from BMW Financial Services (GB) Limited.	1
17.	Bank Statements of State Street Bank & Trust Company from January 1999 to March 1999 showing the nil balances in the bank accounts numbers 157900201 and 157900101.	2
18.	National Westminster Bank plc Corporate Banking Services -- Advice of Borrowing Terms for Kidz Biz Limited dated 6 June 2001.	9
19.	Tenancy Agreement (undated and unsigned) made between Hornbrook Investment Limited (1) and Kidz Biz Far East Limited (2) in respect of Rooms Nos. 501A and 508A on the 5th Floor, Empire Centre, No. 68 Mody Road, Kowloon.	40
20.	Salary List 2000-2001.	2
21.	Email dated 11 December 2001 from Lesley Turnbull to Kidz Biz.	1
22.	Fax dated 12 December 2000 from Claudine Aricique to Simon Jones incorporating AB Toy Distribution Licence Agreement dated 5 December 2000 made between AB Toys (1) and Kidz Biz (2).	11
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25.	Trade Mark Licence dated 19 June 2000 made between United Overseas Limited (1) and Kidz Biz Limited (2).	13
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27.	Shareholders' Agreement dated 18 September 2000 made between David Lipman (1) and John Nimmo (2).	2
28.	Management Accounts of Kidz Biz Far East Limited as at 30 September 2001 together with Accounts Receivables and Accounts Payables attached thereto and the Management Accounts of Kidz Biz Limited as at 30 September 2001.	10
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31.	Security Over Deposit dated 4 August 1997 created by Kidz Biz Far East Limited in favour of State Street Bank and Trust Company.	2

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32.	Security Deposit dated 19 January 1999 created by Kidz Biz Far East Limited in favour of The Hongkong and Shanghai Banking Corporation Limited.	2
33.	Subordination Agreement dated 5 July 1999.	3
34.	Letter of Banking Facilities granted by The Hongkong and Shanghai Banking Corporation Limited dated 23 November 2001 to Kidz Biz Far East Limited.	5
35.	Letter dated 22 October 2001 from Hong Kong Inland Revenue Department to David Ho & Co.	2
36.	Undated Personal Guarantee given by David Lipman and John Nimmo for HK\$15,000,000 in favour of The Hongkong and Shanghai Banking Corporation Limited.	3
37.	Companies House Form M395 in respect of the Mortgage granted by Kidz Biz Limited in favour of the National Westminster Bank plc on 18 August 1997 and Companies House Form M395 in respect of the Deed of rent Deposit granted by Lionway Limited (now Kidz Biz Limited) in favour of Peel Investments North Limited on 29 January 1997.	6
38.	Invoice from Worldwide Media Services Limited for GBP89,000 dated 7 September 2001 and Hongkong and Shanghai Banking Corporation Limited Counter Deposit Form for GBP89,000 dated 7 September 2001.	2
39.	Kidz Biz Companies schedule of dividends post 30 September 2001.	1
40.	Kidz Biz Limited Directors' Report and Financial Statements for the period ended 31 December 1997.	15
41.	Kidz Biz Limited Nat West Current Account No. 66374707 statement showing entries between 24 December 2001 and 27 December 2001.	1
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43.	Kidz Biz Limited RBS Invoice discounting account details consisting of a Sales Ledger Report month end statement for December 2001, Memorandum Discounting Statement month end statement for December 2001 and Payment Availability Report as at 27 December 2001.	6

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT dated as of December 27, 2001 is entered into by and among JAKKS Pacific, Inc., a Delaware corporation ("JAKKS "), and David S. Lipman, Marilyn Lipman and John Nimmo (together the "Shareholders" and each a "Shareholder").

W I T N E S S E T H :  
- - - - -

WHEREAS, JAKKS has this date acquired from the Shareholders all of the outstanding capital stock of Kidz Biz Limited, a private limited company incorporated under the law of England and Wales and Kidz Biz Far East Limited, a Hong Kong corporation (collectively, the "Kidz Biz Companies" and the acquisition of the shares of the Kidz Biz Companies is referred to as the "Acquisition"), pursuant to a Stock Purchase Agreement of even date herewith (the "Stock Purchase Agreement"); and

WHEREAS, a portion of the purchase price for the Acquisition consists of shares of JAKKS' common stock, and in order to induce the Shareholders to enter into the Stock Purchase Agreement and close the Acquisition, JAKKS has agreed to enter into this Agreement regarding registration of such shares of JAKKS' common stock.

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the parties hereto hereby agree as follows:

1. Certain Definitions.

1.1 "Agent" means David S. Lipman, one of the Shareholders.

1.2 "Agreement" means this Registration Rights Agreement, as amended or supplemented.

1.3 "Blue Sky Laws" means the laws of any state, the District of Columbia, or any territory or other jurisdiction in the United States governing the purchase and/or sale of securities in such jurisdiction.

1.4 "Commission" means the U.S. Securities and Exchange Commission.

1.5 "Common Stock" means shares of JAKKS' common stock, par value \$.001 per share.

1.6 "Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended.

1.7 "Inspectors" has the meaning provided for in Section 3.1 below.

1.8 "JAKKS Securities Claims" has the meaning provided for in Section 7.2 below.

1.9 "JAKKS Shares" means the shares of Common Stock delivered as part of the Closing Purchase Price or which may be delivered in payment of the Earn-Out under the Stock Purchase Agreement.

1.10 "Notice" means giving any notice to, or making any declaration or filing, or registration or recordation, with any Person.

1.11 "Person" includes without limitation a natural person, corporation, joint stock company, limited liability company, partnership, joint venture, association, trust, Governmental Authority, or any group of the foregoing acting in concert.

1.12 "Proceeding" means any action, suit, arbitration, audit, investigation or other proceeding, at law or in equity, before or by any Governmental Authority.

1.13 "Order" means any judgment, order, writ, decree, award, directive, ruling or decision of any Governmental Authority.

1.14 "Records" has the meaning provided for in Section 3.1 below.

1.15 The terms "register," "registered," "registration" and "registration statement" shall refer to a registration of securities to be offered and sold under a registration statement filed with the Commission, that becomes effective pursuant to the Securities Act or the Exchange Act and the applicable rules and regulations under either such Act.

1.16 "Registrable Securities" has the meaning provided for in Section 2.1 below.

1.17 "Securities Act" means the U.S. Securities Act of 1933, as amended.

1.18 "Shareholders Securities Claims" has the meaning provided for in Section 7.1 below.

## 2. Registration Rights.

2.1 Registration Statement. JAKKS shall prepare a Registration Statement on Form S-3 (or, if Form S-3 is not then available, on such form of registration statement as is then available to effect a registration of all of the Registrable Securities, subject to the consent of the Shareholders (as determined pursuant to Section 5 hereof)), and file the same with the Commission, in the case of Registrable Securities included in the Closing Purchase Price, on or prior to March 1, 2002, and, in the case of Registrable Securities included in the Earn-Out, if any, within two (2) months after the date of issuance thereof, covering the JAKKS Shares (the "Registrable Securities"), and shall use its best efforts to cause each such registration statement to become effective as soon as practicable, but in no event later than within three (3) months, after the Closing Date, in the case of Registrable Securities included in the Closing Purchase Price, or the date of issuance, in the case of Registrable Securities included in the Earn-Out, if any, to permit, when such registration statement becomes effective, the sale of the Registrable Securities in the public securities markets.

2.2 Incidental Registrations. If at any time prior to the date on which the Registration statement becomes effective, JAKKS shall file with the Commission a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities (other than on Form S-4 or Form S-8 or their then equivalents relating to equity securities to be issued solely in connection with an acquisition of any entity or business or equity securities issuable in connection with

stock option or other employee benefit plans), then JAKKS shall send to each Shareholder written notice of such determination and, if within fifteen (15) days after the date of such notice, any Shareholder shall so request in writing, JAKKS shall include in such Registration Statement all or any part of the Registrable Securities such Shareholder requests to be registered, except that if, in connection with any underwritten public offering, the managing underwriter(s) thereof shall impose a limitation on the number of shares of Common Stock which may be included in the Registration Statement because, in such underwriter(s)' judgment, marketing or other factors dictate such limitation is necessary to facilitate public distribution, then JAKKS shall be obligated to include in such Registration Statement only such limited portion of the Registrable Securities with respect to which such Shareholder has requested inclusion hereunder as the underwriter shall permit. Any exclusion of Registrable Securities shall be made pro rata among the Shareholders seeking to include Registrable Securities, in proportion to the number of Registrable Securities sought to be included by such Shareholders; provided, however, that JAKKS shall not exclude any Registrable Securities unless JAKKS has first excluded all outstanding securities, the holders of which are not entitled to inclusion of such securities in such Registration Statement or are not entitled to pro rata inclusion with the Registrable Securities; and provided, further, however, that, after giving effect to the immediately preceding proviso, any exclusion of Registrable Securities shall be made pro rata with holders of other securities having the right to include such securities in the Registration Statement. No right to registration of Registrable Securities under this Section 2.2 shall be construed to limit any registration required under Section 2.1 hereof. If an offering in connection with which a Shareholder is entitled to registration under this Section 2.2 is an underwritten offering, then each Shareholder whose Registrable Securities are included in such Registration Statement shall, unless otherwise agreed by JAKKS, offer and sell such Registrable Securities in an underwritten offering using the same underwriter or underwriters and, subject to the provisions of this Agreement, on the same terms and conditions as other shares of Common Stock included in such underwritten offering.

2.3 Limitation on Sales of JAKKS Shares. Each of David S. Lipman and Marilyn Lipman shall not sell, assign, pledge or otherwise transfer, or engage in short-selling or hedging transactions with respect to, any Registrable Securities held by him or her, notwithstanding that such securities may have been registered for sale under the Securities Act, in any calendar quarter of 2002, in excess of the number set forth below:

Quarter -----	Number of Shares -----
1	25% of JAKKS Shares initially issued to both such Shareholders
2	50% of JAKKS Shares initially issued to both such Shareholders, less the number of such Shares sold hereunder by both such Shareholders in the prior quarter
3	75% of JAKKS Shares initially issued to both such Shareholders, less the number of such Shares sold hereunder by both such Shareholders in the prior two quarters
4	100% of JAKKS Shares initially issued to both such Shareholders, less the number of such Shares sold hereunder by both such Shareholders in the prior three quarters

2.4 Preparation and Filing of Registration Statement. With respect to any Registration Statement to be prepared by JAKKS under this Agreement, JAKKS shall, at its sole expense, as expeditiously as practicable:

(i) prepare and file with the Commission a registration statement necessary to permit the sale of the Registrable Securities in the public securities markets when such registration statement becomes effective and use its best efforts to keep the Registration Statement effective pursuant to Rule 415 at all times until such date as is the earlier of (i) the date on which all of the Registrable Securities have been sold and (ii) the date on which all of the Registrable Securities (in the reasonable opinion of counsel to Shareholders) may be immediately sold to the public without registration and without restriction as to the number of Registrable Securities to be sold, whether pursuant to Rule 144 or otherwise (the "Registration Period").

(ii) prepare and file with the Commission such amendments and supplements to such Registration Statement and the prospectus included therein as may be necessary, to keep the Registration Statement effective at all times during the Registration Period, and, during such period, comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of JAKKS covered by the Registration Statement until the termination of the Registration Period. JAKKS shall use its best efforts to cause such amendments to become effective as soon as practicable following the filing thereof.

(iii) furnish to the Agent (a) promptly after the same is prepared and publicly distributed, filed with the Commission, or received by JAKKS, one copy of the Registration Statement and any amendment thereto, each preliminary prospectus and prospectus and each amendment or supplement thereto, and, in the case of a Registration Statement referred to in Section 2.1, each written correspondence by or on behalf of JAKKS to the Commission or the staff of the Commission, and each item of correspondence from the Commission or the staff of the Commission, in each case relating to such Registration Statement (other than any portion, if any, thereof which contains information for which JAKKS has sought confidential treatment), and (b) such number of conformed copies of such registration statement and of each amendment or supplement thereto (in each case including all exhibits and documents incorporated therein by reference), such number of copies of any prospectus included in such registration statement and such other documents, in each case, as the Agent may reasonably request in order to facilitate the sale of the Registrable Securities in the public securities markets;

(iv) use its best efforts to register or to qualify the Registrable Securities under the Blue Sky Laws of each state governing further purchase or sale of securities as the Agent may reasonably request, to keep such registration or qualification in effect for so long as such registration statement remains in effect and take any other action that may be reasonably necessary or advisable to enable the Shareholders to consummate the disposition in such states of the Registrable Securities; provided that JAKKS shall not be required to keep such registration or qualification in effect at any time after the disposition of the Registrable Securities in accordance with the manner of disposition set forth in the registration statement relating thereto; and provided, further, that JAKKS will not be required to (A) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this paragraph or (B) subject itself to taxation in any such jurisdiction;

(v) notify the Agent as expeditiously as practicable, and confirm such advice in writing:

(1) when the registration statement or any amendment thereto has been filed and when it has become effective;

(2) of the issuance by the Commission of any stop order suspending the effectiveness of the registration statement or the initiation of any proceedings for that purpose; and

(3) of the registration or qualification of the Registrable Securities for sale under the Blue Sky Laws of any jurisdiction affecting such registration or qualification;

(4) of the happening of any event as a result of which the prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and use its best efforts to as soon as possible (but in any event it shall within five (5) days) prepare a supplement or amendment to the Registration Statement to correct such untrue statement or omission, and deliver such number of copies of such supplement or amendment to each Shareholder as such Shareholder may reasonably request.

(vi) make its best efforts to prevent the issuance of any Order suspending the effectiveness of the registration statement and, if such an Order is issued, to obtain the withdrawal of such Order at the earliest possible time;

(vii) cause all of the Registrable Securities covered by the registration statement to be listed on each securities exchange, or designated for inclusion in each automated interdealer quotation system, on which the Common Stock is listed or included.

(viii) JAKKS shall comply with all applicable laws related to a Registration Statement and offering and sale of securities and all applicable rules and regulations of governmental authorities in connection therewith (including, without limitation, the Securities Act and the Exchange Act, and the rules and regulations promulgated by the Commission); and

(ix) JAKKS shall take all such other actions as any Shareholder or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of such Registrable Securities.

2.5 Limitations on Registrations. JAKKS may delay the filing, or the making of a request for the acceleration of effectiveness, of a registration statement pursuant to this Section 2 or withdraw or suspend the effectiveness of a registration statement covering the Registrable Securities that has become effective if in the good faith and reasonable judgment of JAKKS' board of directors, JAKKS would be required to include in such registration statement or the prospectus included therein (or in an amendment or supplement thereto) material information that at that time could not be publicly disclosed without materially interfering with any financing, acquisition, corporate reorganization or other material development or transaction then pending or as to which JAKKS has taken substantive steps to structure or negotiate; provided that the duration of any such delay, suspension or withdrawal shall not exceed 90 days from the date that JAKKS' board of directors commences or becomes aware of such transaction or development and that JAKKS shall not exercise its right to cause such delay, suspension or withdrawal on one or more occasions if, as a result thereof, the aggregate duration of all such delays, suspensions or withdrawals would exceed 90 days within any rolling 12-month period during the term of this Agreement; and, in case of any such delay, suspension or withdrawal, JAKKS shall make such filing or amendment as is reasonably necessary to complete, restore or reinstate such registration statement no later than the

earlier of (i) the earliest date on which the conditions leading to such delay, suspension or withdrawal no longer apply and (ii) the end of such 90 day period.

2.6 Shareholders' Obligations. It is a condition precedent to JAKKS' obligation to register any Registrable Securities pursuant hereto that (a) the Shareholders cooperate with JAKKS in the preparation of the Registration Statement (or any amendment thereto), including providing any information with respect to the Shareholders required to be included therein, and (b) in the case of an incidental registration of Common Stock or other equity securities of JAKKS for sale in an underwritten public offering, each Shareholder who participates in such registration agrees to sell his or her Registrable Securities to the underwriters at the same price and on substantially the same terms and conditions as apply to the other securities included in such registration and that they execute the underwriting agreement, custody agreement and related documents that apply to all the securities to be offered under such registration.

### 3. Preparation; Reasonable Investigation.

3.1 In connection with the preparation and filing of the registration statement and any amendments thereto and any Blue Sky Filing, JAKKS will give the Agent and its counsel and accountant the opportunity to review, in each case, a reasonable time prior to their filing, the registration statement, each prospectus included therein or filed with the Commission, each document incorporated by reference therein and each amendment thereof or supplement thereto and any Blue Sky Filing in order to verify the accuracy of any factual information concerning the Kidz Biz Companies or the Shareholders. JAKKS will make available for inspection by the Agent, any underwriter participating in any disposition pursuant to such registration statement and any attorney, accountant or other agent retained by the Agent or any such underwriter (collectively, the "Inspectors"), all financial and other records, pertinent corporate documents and properties of JAKKS (collectively, the "Records") as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause JAKKS's officers, directors and employees to supply all information reasonably requested by any such Inspector in connection with such registration statement and permit the Inspectors to participate in the preparation of such registration statement and any prospectus contained therein and any amendment thereof or supplement thereto. Records which JAKKS determines, in good faith, to be confidential and which it notifies the Inspectors are confidential shall not be disclosed by the Inspectors unless (i) the disclosure of such Records is necessary to avoid or correct a misstatement or omission in the registration statement, (ii) the release of such Records is ordered pursuant to a subpoena or other Order from a court of competent jurisdiction, or (iii) the information in such Records has been made generally available to the public. The seller of Registrable Securities agrees by acquisition of such Registrable Securities that it will, upon learning that disclosure of such Records is sought in a court of competent jurisdiction, give notice to JAKKS and allow JAKKS, at JAKKS's expense, to undertake appropriate action to prevent or limit disclosure of the Records deemed confidential. JAKKS shall pay for all registration and filing fees, printing expenses and fees and disbursements of JAKKS's counsel and one counsel for the Shareholders and the Agent and JAKKS's Accountants in connection with the preparation, review and filing of the registration statement or any Blue Sky Filing pursuant to this Agreement; provided, however, that the Agent on behalf of the Shareholders shall pay underwriting discounts and commissions applicable to the sale of the Registrable Securities.



#### 4. Application to Subsequent Holders.

4.1 The provisions of this Agreement shall inure to the benefit of and be binding upon any holder of Registrable Securities; provided that all such holders shall be deemed to be represented by and act through the Agent (or, if he shall die, resign or otherwise cease so to act, a successor designated by the Agent in a written notice given to JAKKS, or if the Agent shall not so designate a successor, a successor designated by the holders of a majority of the Registrable Securities then outstanding in a written notice given to JAKKS, the designation of such successor to be effective upon actual receipt of such notice by JAKKS) and any notice or other documents required or permitted to be given or delivered pursuant to the provisions of this Agreement to or by the Shareholders shall be deemed to be duly so given or delivered if given to or by the Agent (or such successor) in accordance with Section 8.2, and any right of the holders of Registrable Securities, including in connection with the preparation of any documents or any investigation pursuant to Agreement relating to any registration, shall be exercised or effected by or through the Agent (or such successor).

#### 5. The Agent.

5.1 Any Party hereto may rely upon any Notice given by the Agent on behalf of any Shareholder with respect to any election, determination or other action to be made or taken by him hereunder as the act and deed of such Shareholder. It shall be sufficient to deliver to the Agent at his address set forth in Section 8.2 below any Notice or other document to be delivered hereunder to any Shareholder and it shall be the sole responsibility of the Agent to deliver any Notice or other document so delivered to him in such manner as he and the Shareholders, or any of them, may agree.

5.2 Each election, determination or other action of the Agent in connection with this Agreement shall be binding upon all of the Shareholders, and no Shareholder shall have any right to object, dissent from, or protest or otherwise contest the same or take any separate action relating to the same.

5.3 Any delivery to be made hereunder to or for any Shareholder that is made to the Agent as herein provided shall constitute, as between JAKKS and the Shareholders, delivery in full of the item to be delivered. It shall be the sole responsibility of the Agent to hold for and disburse to the Shareholders and any items delivered to the Agent pursuant hereto.

6. Reports under the Exchange Act. With a view to making available to the Shareholders the benefits of Rule 144 promulgated under the Securities Act or any other similar rule or regulation of the Commission that may at any time permit the Shareholders to sell securities of JAKKS to the public without registration ("Rule 144"), JAKKS agrees to, so long as such Shareholder holds or beneficially owns Registrable Securities:

(i) File with the Commission in a timely manner and make and keep available all reports and other documents required of JAKKS under the Securities Act and the Exchange Act so long as JAKKS remains subject to such requirements and the filing and availability of such reports and other documents is required for the applicable provisions of Rule 144; and

(ii) Furnish to each Shareholder promptly upon request, (i) a written statement by JAKKS that it has complied with the reporting requirements of Rule 144, the Securities Act and the Exchange Act, (ii) a copy of the most recent annual or quarterly report of JAKKS and such other reports and documents so filed by JAKKS, and (iii) such other information as may be reasonably

requested to permit the Shareholders to sell such securities pursuant to Rule 144 without registration.

## 7. Indemnification.

7.1 Shareholders' Indemnity. Each Shareholder, severally but not jointly, shall indemnify and defend JAKKS against, and hold it harmless from, any loss, liability, obligation, damage or expense (including reasonable attorneys' fees and disbursements) which it may suffer or incur incidental to any claim or any Proceeding against it arising out of, based upon or resulting from an untrue statement or alleged untrue statement of a material fact contained in, or omission or alleged omission of a material fact from, the registration statement, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto, or any document incidental to the registration or qualification of the JAKKS Shares that is required to be stated therein or necessary to make the statements therein not misleading or, with respect to any prospectus, necessary to make the statements therein, in light of the circumstances under which they were made, not misleading which statement or omission is made in reliance upon and in conformity with written information furnished to JAKKS by that Shareholder solely for use in the preparation thereof ("Shareholders' Securities Claims"). provided, however, that no Shareholder shall be liable in any such case to the extent that such Securities Claims arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in, or omission or alleged omission of a material fact from, the registration statement, such preliminary prospectus or such prospectus or such amendment or supplement or any document incident to the registration or qualification of the Registrable Securities in reliance upon and in conformity with written information furnished to it by JAKKS solely for use in the preparation thereof.

7.2 JAKKS' Indemnity. JAKKS shall indemnify and defend each Shareholder and each person who participates as a placement or sales agent or as an underwriter (within the meaning of the Securities Act) in any offering of the Registrable Securities against, and hold each of them harmless from, any loss, liability, obligation, damage or expense (including reasonable attorneys' fees and disbursements) which any of them may suffer or incur incidental to any claim or any Proceeding against any of them arising out of, based upon or resulting from an untrue statement or alleged untrue statement of a material fact contained in the registration statement, any preliminary prospectus or final prospectus contained therein, any document incorporated by reference therein or any amendment or supplement thereto, or any document prepared and/or furnished by JAKKS or its Affiliates incident to the registration or qualification of the Registrable Securities, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading or, with respect to any prospectus, necessary to make the statements therein in light of the circumstances under which they were made, not misleading, or any violation by JAKKS or its Affiliates of the Securities Act or Blue Sky Laws applicable to them and relating to action or inaction required of JAKKS or its Affiliates in connection with such registration or qualification under such Blue Sky Laws ("JAKKS' Securities Claims"); provided, however, that JAKKS shall not be liable in any such case to the extent that such Securities Claims arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in, or omission or alleged omission of a material fact from, the registration statement, such preliminary prospectus or such prospectus or such amendment or supplement or any document incident to the registration or qualification of the Registrable Securities in reliance upon and in conformity with written information furnished to it by that Shareholder solely for use in the preparation thereof.

7.3 Claims Procedure. Promptly after Notice to an indemnified party of any claim or the commencement of any Proceeding by a third party involving any loss, liability, obligation, damage or expense referred to in Section 7.1 or 7.2, such indemnified party shall, if a claim for indemnification in respect thereof is to be made against an indemnifying party, give written Notice to the latter of the commencement of such claim or Proceeding, setting forth in reasonable detail the nature thereof and the basis upon which such party seeks indemnification hereunder; provided that the failure of any indemnified party to give such Notice shall not relieve the indemnifying party of its obligations under such Section, except to the extent that the indemnifying party is actually prejudiced by the failure to give such Notice. In case any such Proceeding is brought against an indemnified party, and provided that proper Notice is duly given, the indemnifying party shall assume and control the defense thereof insofar as such Proceeding involves any loss, liability, obligation, damage or expense in respect of which indemnification may be sought hereunder, with counsel selected by the indemnifying party (and reasonably satisfactory to such indemnified party), and, after Notice from the indemnifying party to such indemnified party of its assumption of the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof (but the indemnified party shall have the right, but not the obligation, to participate at its own cost and expense in such defense by counsel of its own choice) or for any amounts paid or foregone by the indemnified party as a result of the settlement or compromise thereof (without the written consent of the indemnifying party), except that, if both the indemnifying party and the indemnified party are named as parties or subject to such Proceeding and either such party reasonably determines with advice of counsel that a material conflict of interest between such parties may exist in respect of such Proceeding, the indemnifying party may decline to assume the defense on behalf of the indemnified party or the indemnified party may retain the defense on its own behalf, and, in either such case, after Notice to such effect is duly given hereunder to the other party, the indemnifying party shall be relieved of its obligation to assume the defense on behalf of the indemnified party, but shall be required to pay any legal or other expenses, including without limitation reasonable attorneys' fees and disbursements incurred by the indemnified party in such defense; provided, however, that the indemnifying party shall not be liable for such expenses on account of more than one separate firm of attorneys (and, if necessary, local counsel) at any time representing such indemnified party in connection with any Proceeding or separate Proceedings in the same jurisdiction arising out of or based upon substantially the same allegations or circumstances. If the indemnifying party shall assume the defense of any such Proceeding, the indemnified party shall cooperate fully with the indemnifying party and shall appear and give testimony, produce documents and other tangible evidence, allow the indemnifying party access to the books and records of the indemnified party and otherwise assist the indemnifying party in conducting such defense. No indemnifying party shall, without the consent of the indemnified party, which consent shall not be unreasonably withheld, consent to entry of any judgment or enter into any settlement or compromise which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such claim or Proceeding. Provided that proper Notice is duly given, if the indemnifying party shall fail promptly and diligently to assume the defense thereof, if and in the manner required hereunder, the indemnified party may respond to, contest and defend against such Proceeding (but the indemnifying party shall have the right to participate at its own cost and expense in such defense by counsel of its own choice) and may make in good faith any compromise or settlement with respect thereto, and recover the entire cost and expense thereof, including, without limitation, reasonable attorneys' fees and disbursements and all amounts paid or foregone as a result of such Proceeding, or the settlement or compromise thereof, from the indemnifying party. Any indemnification required to be made hereunder shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills or invoices are received or loss, liability, obligation, damage or expense is actually suffered or incurred.

#### 7.4 Limitations.

(i) Any other provision hereof notwithstanding:

(1) If JAKKS is entitled to receive indemnification from the Shareholders pursuant to Section 7.1, JAKKS may, upon thirty (30) days prior written Notice to the Shareholders, cause the amount thereof to be offset and retained by JAKKS HK from any payment of the Earn-Out (as such term is defined in the Stock Purchase Agreement) otherwise payable to the Shareholders thereunder;

(2) no indemnified party shall be entitled to any indemnification under this Agreement to the extent that it actually receives or is entitled to receive any amount in respect of any loss, liability, obligation, damage or expense from other sources, including without limitation insurance or third-party indemnity; provided that such indemnified party shall not be required to commence any Proceeding to collect any such amount.

(b) The indemnification obligations under this Agreement are independent of any other indemnification obligations that any of the parties hereto may have to one another under any other agreement between or among them, and, in particular, none of the limitations upon the indemnification obligations of the parties to the Stock Purchase Agreement shall apply to the indemnification obligations of the parties under this Agreement.

7.5 Contribution. Each Shareholder and JAKKS agree that if, for any reason, the indemnification provisions contemplated by Sections 7.1 or 7.2 hereof are unavailable to or are insufficient to hold harmless an indemnified party in respect of any losses (or actions or proceedings in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses (or actions or proceedings in respect thereof) in such proportion as is appropriate to reflect the relative fault of, and benefits derived by, the indemnifying party and the indemnified party, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of material fact or omission alleged omission to state a material fact relates to information supplied by such indemnifying party or by such indemnified party, and the parties' relative intent, knowledge access to information and opportunity to correct or prevent such statement or omission. The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 7.5 were determined (i) by pro rate allocation (even if the Shareholder or any agents for, or underwriters of, the Registrable Securities, or all of them, were treated as one entity for such purpose); or (ii) by any other method of allocation which does not take account of the equitable considerations referred to in this Section 7.5. The amount paid or payable by an indemnified party as a result of losses (or actions or proceedings in respect thereof) referred to above shall be deemed to include (subject to the limitations set forth in Section 7.3 hereof) any legal or other fees or expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action, proceeding or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

7.6 Extent of Indemnification. The obligations of the Company under this Section 7 shall be in addition to any liability that it may otherwise have and shall extend, upon the same terms and conditions,

to each agent and underwriter of the Registrable Securities and each person, if any, who controls such agent or underwriter with the meaning of the Securities Act.

8. Miscellaneous.

8.1 Fees and Expenses. Except as otherwise specified in this Agreement, each party hereto shall bear such fees and expenses as may be incurred by it in connection with this Agreement.

8.2 Notices. Any Notice or demand required or permitted to be given or made hereunder to or upon any Party hereto shall be deemed to have been duly given or made for all purposes if in writing and (i) if sent by messenger or Federal Express or internationally recognized courier service, or by priority overnight delivery between any two points within the U.S. or any two points within the U.K., on the business day next following the date such Notice or demand was delivered, or (ii) if sent by priority overnight delivery between any point within the U.S. and any point outside of the U.S., or between any point within the U.K. and any point outside of the U.K., or between any two points outside of the U.S. or the U.K., three (3) business days next following the date such Notice or demand was delivered; or (iii) if sent by mail, three (3) business days after deposit in the mails, if mailed by certified or registered mail (return receipt requested) between any two points within the U.S. or any two points within the U.K., and seven (7) business days if mailed by certified or registered mail (return receipt requested) between any point within the U.S. and any point outside of the U.S., or between any point within the U.K. and any point outside of the U.K., or between any two points outside of the U.S. or the U.K., or (iv) if sent by telegram, telecopy (confirmed to the sender), telex or similar electronic means, the business day next following the date such notice or demand was so transmitted, provided that a written copy thereof is sent on the same day by postage-paid first-class mail, to such Party at the following address:

if to JAKKS Pacific:  
JAKKS Pacific, Inc.  
22619 Pacific Coast Highway  
Malibu, California 90265  
Attn: President  
Fax: (310) 317-8527

and to: Feder, Kaszovitz, Isaacson,  
Weber, Skala, Bass & Rhine LLP  
750 Lexington Avenue  
New York, New York 10022-1200 U.S.  
Attn: Geoffrey A. Bass, Esq.  
Fax: (212) 888-7776

to David Lipman or

Marilyn Lipman at:  
David S. Lipman  
Castilian House  
The Ridge  
Epsom, Surrey KT18 1BS  
United Kingdom  
Fax:

to John Nimmo:  
John Nimmo  
Morwell  
5 Grays Lane  
Ashtead, Surrey KT21 1BS  
United Kingdom  
Fax:

with a copy to: Altheimer & Gray  
10 South Wacker Drive  
Chicago, Illinois 60606-7482 U.S.  
Attn: Jonathan Baird, Esq  
Fax: 312-715-4800

and to: Altheimer & Gray  
7 Bishopsgate  
London EC2N 3AR United Kingdom  
Fax: 020-7786-0000  
Attn: Dean Harper, Esq.

or such other address as any Party hereto may at any time, or from time to time, direct by Notice given to the other Parties in accordance with this Section. Except as otherwise expressly provided herein, the date of giving or making of any such Notice or demand shall be, in the case of clause (a) (i), the date of the receipt; in the case of clause (a) (ii), three business days after such Notice or demand is sent; and, in the case of clause (b), the business day next following the date such Notice or demand is sent.

8.3 Amendment. Except as otherwise expressly provided herein, no amendment of this Agreement shall be valid or effective, unless in writing and signed by or on behalf of the parties hereto.

8.4 Waiver. No course of dealing or omission or delay on the part of any party hereto in asserting or exercising any right hereunder shall constitute or operate as a waiver of any such right. No waiver of any provision hereof shall be effective, unless in writing and signed by or on behalf of the party to be charged therewith. No waiver shall be deemed a continuing waiver or waiver in respect of any other or subsequent breach or default, unless expressly so stated in writing.

8.5 Governing Law. This Agreement shall be governed by, and interpreted and enforced in accordance with, the laws of the State of New York without regard to principles of choice of law or conflict of laws. For the purpose of enforcing the provisions of Section 8.6 of this Agreement and any other remedy available to a Party under this Agreement which is outside of the jurisdiction of the arbitrators referred to in Section 8.6, each Party to this Agreement submits to the jurisdiction of the courts of the State of New York, located in New York County, New York, United States of America, and to the jurisdiction of the United States District Court for the Southern District of New York, New York, New York, United States of America with respect to any matter arising out of this Agreement, waives any objection to venue in the Counties of New York, State of New York, or such District, and agrees that

service of any summons, complaint, Notice or other process relating to such Proceeding may be effected in the manner provided by Section 8.2.

8.6 Arbitration. Any claim, dispute or controversy between or among any of the Parties hereto shall be submitted to arbitration in New York, New York in accordance with the then current Commercial Arbitration Rules of the American Arbitration Association before a panel of three arbitrators. JAKKS, on the one hand, and the Shareholders shall each pay one-half of any filing fees or other administrative costs to be paid in advance of or during such Proceeding. The arbitrators shall render a reasoned decision with respect to such Proceeding which shall include, in addition to the imposition of monetary damages or any other remedy or relief available hereunder, an allocation of the costs thereof. The decision of the arbitrators shall be final and binding upon the parties to such Proceeding, and judgment thereon may be entered in any court of competent jurisdiction. The arbitrators shall have no power to change any of the provisions of this Agreement in any respect, nor shall they have any power to make an award of reformation, and the jurisdiction of the arbitrators is expressly limited accordingly. No Party hereto shall be liable for punitive damages, unless such Party is found to have committed fraud or willful malfeasance against another Party hereto. At least one of the arbitrators shall be an attorney admitted to the practice of law for at least fifteen (15) years with substantial experience in business and commercial transactions.

8.7 Severability. The provisions hereof are severable and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable in any respect by a court of competent jurisdiction, the remaining provisions hereof shall not be affected, but shall, subject to the discretion of such court, remain in full force and effect, and any invalid or unenforceable provision shall be deemed, without further action on the part of the parties hereto, amended and limited to the extent necessary to render the same valid and enforceable.

8.8 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and which together shall constitute one and the same agreement.

8.9 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement is not intended, and shall not be deemed, to create or confer any right or interest for the benefit of any Person not a party hereto.

8.10 Titles and Captions. The titles and captions of the Articles and Sections of this Agreement are for convenience of reference only and do not in any way define or interpret the intent of the parties or modify or otherwise affect any of the provisions hereof.

8.11 Grammatical Conventions. Whenever the context so requires, each pronoun or verb used herein shall be construed in the singular or the plural sense and each capitalized term defined herein and each pronoun used herein shall be construed in the masculine, feminine or neuter sense.

8.12 References. The terms "herein," "hereto," "hereof," "hereby" and "hereunder," and other terms of similar import, refer to this Agreement as a whole, and not to any Article, Section or other part hereof. Each party hereto acknowledges that it has participated, with the advice of counsel, in the preparation of this Agreement. No party hereto is entitled to any presumption with respect to the interpretation of any provision hereof or the resolution of any alleged ambiguity herein based on any claim that any other party hereto drafted or controlled the drafting of this Agreement.



8.13 Entire Agreement. This Agreement embodies the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes all prior agreements, commitments or arrangements relating thereto.

IN WITNESS WHEREOF, JAKKS PACIFIC, INC., by its duly authorized officer, and the other parties hereto have duly executed this Agreement as of the date set forth in the Preamble hereto.

JAKKS PACIFIC, INC.

By: /s/ STEPHEN G. BERMAN

-----  
Name: Stephen G. Berman  
Title: President and COO

/s/ DAVID S. LIPMAN

-----  
David S. Lipman

/s/ JOHN NIMMO

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John Nimmo

/s/ MARILYN LIPMAN

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Marilyn Lipman

## SHARE TRANSFER AGREEMENT

AGREEMENT dated as of December 30, 2001 between JAKKS Pacific, Inc., a Delaware corporation ("JAKKS Pacific"), with its principal offices at 22619 Pacific Coast Highway, Suite 250, Malibu, ca 90265 and JAKKS Pacific (HK) Limited, a Hong Kong corporation ("JAKKS HK"), with its principal offices at 7th Floor, Manulife Tower, 169 Electric Road, Hong Kong.

WHEREAS, JAKKS Pacific is the beneficial owner of all of the issued and outstanding shares of JAKKS HK (one share being held by Jack Friedman as nominee); and

WHEREAS, JAKKS Pacific is the beneficial owner of all of the issued and outstanding shares of Kidz Biz Limited, a private limited company organized under the laws of England and Wales ("Kidz Biz UK") and Kidz Biz Far East Limited, a Hong Kong private limited company ("Far East"); one share of Far East being held by Jack Friedman as nominee. Kidz Biz UK and Far East are sometimes collectively referred to as the "Kidz Biz Companies", and JAKKS Pacific and JAKKS HK are sometimes collectively referred to as the "Parties."

WHEREAS, JAKKS Pacific wishes to sell and JAKKS HK wishes to acquire all of the shares of the Kidz Biz Companies owned by JAKKS Pacific.

NOW, THEREFORE, it is hereby agreed as follows:

1. Certain Definitions.

- 1.1 "Acquisition" means the purchase of the Kidz Biz Shares pursuant to this Agreement.
- 1.2 "Effective Date" means December 30, 2001.
- 1.3 "Far East Shares" means the shares of HK \$1.00 each of Far East.
- 1.4 "Kidz Biz Shares" means the Ordinary Shares and the Far East Shares.
- 1.5 "Ordinary Shares" means the ordinary shares of Pound Sterling1 each of Kidz Biz UK.

2. Purchase of the Kidz Biz Shares.

2.1 Transfer of Shares. JAKKS Pacific hereby sells and JAKKS HK hereby buys the Ordinary Shares and the Far East Shares owned of record or beneficially by JAKKS Pacific at or after the Effective Date of this Agreement, free of any liens, claims or encumbrances created by JAKKS Pacific.

2.2 Purchase Price. The Purchase Price for the Kidz Biz Shares is US \$12,400,000.00, which

shall be paid concurrently herewith by JAKKS HK to JAKKS Pacific by crediting such amount against the amounts due from JAKKS Pacific to JAKKS HK as of the Effective Date. The purchase price shall be allocated as follows: US \$9,672,000.00 shall be allocated to the purchase of the Far East Shares and US \$2,728,000 shall be allocated to the purchase of the Ordinary Shares.

### 3. Representations and Warranties.

#### 3.1 JAKKS Pacific hereby represents and warrants as follows:

(a) JAKKS Pacific Good Standing; Power and Authority. JAKKS Pacific is a corporation duly organized, validly existing and in good standing under the laws of Delaware, and has full power and authority to own its assets and carry on its business as and in the places where such assets are now owned or such business is now being conducted. JAKKS Pacific has full corporate power and authority to execute and deliver this Agreement to assume and perform its obligations hereunder and thereunder. No Consent of, or Notice to, any Person is required as to JAKKS Pacific in connection with its execution and delivery of this Agreement or the performance of its obligations hereunder.

(b) JAKKS HK Good Standing; Power and Authority. JAKKS HK is a company duly organized, validly existing and in good standing under the laws of Hong Kong, and has full power and authority to own its assets and carry on its business as and in the places where such assets are now owned or such business is now being conducted. JAKKS HK has full corporate power and authority to execute and deliver this Agreement to assume and perform its obligations hereunder and thereunder. No Consent of, or Notice to, any Person is required as to JAKKS HK in connection with its execution and delivery of this Agreement or the performance of its obligations hereunder.

### 4. Miscellaneous.

4.1 Amendment. Except as otherwise expressly provided herein, no amendment of this Agreement shall be valid or effective, unless in writing and signed by or on behalf of the parties hereto.

4.2 Severability. The provisions hereof are severable and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable in any respect by a court of competent jurisdiction, the remaining provisions hereof shall not be affected, but shall, subject to the discretion of such court, remain in full force and effect, and any invalid or unenforceable provision shall be deemed, without further action on the part of the parties hereto, amended and limited to the extent necessary to render the same valid and enforceable.

4.3 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and which together shall constitute one and the same agreement.

4.4 Further Assurances. Each party hereto agrees to cooperate fully with the other parties in connection with preparing and filing any Notices or documents in connection with the Acquisition. Each party hereto shall promptly execute, deliver, file or record such agreements, instruments, certificates and other documents and perform such other and further acts as any other party hereto may reasonably request

or as may otherwise be reasonably necessary or proper, to consummate and perfect the Acquisition.

4.5 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement is not intended, and shall not be deemed, to create or confer any right or interest for the benefit of any Person not a party hereto.

4.6 Assignment. This Agreement, and each right, interest and obligation hereunder, may not be assigned by any party hereto without the prior written consent of the other parties hereto, and any purported assignment without such consent shall be void and without effect.

4.7 Governing Law. This Agreement shall be governed by, and interpreted and enforced in accordance with, the laws of the State of New York without regard to principles of choice of law or conflict of laws.

4.8 Titles and Captions. The titles and captions of the Articles and Sections of this Agreement are for convenience of reference only and do not in any way define or interpret the intent of the parties or modify or otherwise affect any of the provisions hereof.

4.9 Grammatical Conventions. Whenever the context so requires, each pronoun or verb used herein shall be construed in the singular or the plural sense and each capitalized term defined herein and each pronoun used herein shall be construed in the masculine, feminine or neuter sense.

4.10 References. The terms "herein," "hereto," "hereof," "hereby" and "hereunder," and other terms of similar import, refer to this Agreement as a whole, and not to any Article, Section or other part hereof.

4.11 Entire Agreement. This Agreement embodies the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes all prior agreements, commitments or arrangements relating thereto.

IN WITNESS WHEREOF, JAKKS and JAKKS HK, by their respective duly authorized officers, have duly executed this Agreement as of the date set forth in the Preamble hereto.

JAKKS PACIFIC (HK) LIMITED

JAKKS PACIFIC, INC.

By: /s/ JACK FRIEDMAN

By: /s/ JACK FRIEDMAN

-----  
Name: Jack Friedman  
Title: Director

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Name: Jack Friedman  
Title: Chairman, CEO

## AMENDMENT NO. 1 TO SHARE TRANSFER AGREEMENT

AGREEMENT NO. 1 TO SHARE TRANSFER AGREEMENT dated as of December 30, 2001 between JAKKS Pacific, Inc., a Delaware corporation ("JAKKS Pacific"), with its principal offices at 22619 Pacific Coast Highway, Suite 250, Malibu, CA 90265 and JAKKS Pacific (HK) Limited, a Hong Kong corporation ("JAKKS HK"), with its principal offices at 7th Floor, Manulife Tower, 169 Electric Road, Hong Kong.

WHEREAS, JAKKS Pacific and JAKKS HK wish to amend the Share Transfer Agreement between them dated as of December 30, 2001 (the "Share Transfer Agreement") regarding the transfer by JAKKS Pacific to JAKKS HK of the shares of Kidz Biz Limited, a private limited company organized under the laws of England and Wales and Kidz Biz Far East Limited, a Hong Kong private limited company.

NOW, THEREFORE, it is hereby agreed as follows:

1. Capitalized terms not otherwise defined herein are used with the same meanings ascribed thereto in the Share Transfer Agreement.
2. Section 2.2 of the Share Transfer Agreement is amended to provide that the US\$12,400,000 Purchase Price for the Kidz Biz Shares shall be allocated as follows: US\$9,672,000.00 shall be allocated to the purchase of the Far East Shares and US\$2,728,000 shall be allocated to the purchase of the Ordinary Shares.
3. The Share Transfer Agreement is amended to provide that JAKKS HK shall pay to JAKKS Pacific, as an addition to the Purchase Price, an amount equal to the Market Value of the shares of Common Stock delivered by JAKKS Pacific in satisfaction of the Earn-Out Payment, if any, payable under the Stock Purchase Agreement. As used herein, the term "Common Stock" means shares of JAKKS Pacific's common stock, par value US\$.001 per share; the term "Stock Purchase Agreement" means the Stock Purchase Agreement executed on December 27, 2001 by JAKKS Pacific and the shareholders of the Kidz Biz Companies; the term "Earn-Out Payment" has the meaning provided for in the Stock Purchase Agreement; and the term "Market Value" means the average closing price of the Common Stock on the NASDAQ stock exchange, or if the Common Stock is not then being traded on the NASDAQ stock market, such other exchange or market on which the Common Stock is then being traded, on the five (5) business days preceding the date on which shares of Common Stock are issued by JAKKS Pacific in satisfaction of each Earn-Out Payment, if any. The payments due under this Paragraph shall be made within ten (10) business days following the date on which shares of Common Stock are delivered by JAKKS Pacific in satisfaction of the Earn-Out Payment, and such payments shall be allocated 78% to the purchase of the Far East Shares and 22% to the purchase of the Ordinary Shares.

4. As amended hereby, the Share Transfer Agreement remains in full force and effect.

IN WITNESS WHEREOF, JAKKS and JAKKS HK by their respective duly authorized officers have duly executed this Agreement as of the date set forth in the Preamble hereto.

JAKKS PACIFIC (HK) LIMITED

JAKKS PACIFIC, INC.

By: /s/ JACK FRIEDMAN

By: /s/ JACK FRIEDMAN

-----  
Name: Jack Friedman  
Title: Director

-----  
Name: Jack Friedman  
Title: Chairman, CEO

## Subsidiaries of the Registrant

Subsidiary Jurisdiction - ----- JP (HK) Limited Hong Kong  
JAKKS Pacific (HK) Limited Hong Kong Kidz Biz Limited United Kingdom Kidz Big  
Far East Limited Hong Kong J-X Enterprises, Inc. New York JAKKS Acquisition  
Corp. Delaware Road Champs, Inc Delaware Road Champs, Ltd. Hong Kong Pentech  
International Inc. Delaware Pentech Cosmetics, Inc. Delaware Sawdust Pencil Co.  
Delaware Pentech-Mon Ami, Inc. Delaware Berk Corporation California Flying  
Colors Toys, Inc. Michigan Flying Colors Toys (HK) Ltd. Hong Kong JP Ferrero  
Parkway, Inc. California JP/T11 Acquisition Corp. Delaware Toymax  
International, Inc. Delaware Toymax Inc. New York Toymax (H.K.) Limited Hong  
Kong Funnoodle, Inc. Delaware Funnoodle, (H.K.) Limited Hong Kong Go Fly A  
Kite, Inc. Delaware Go Fly A Kite (H.K.) Limited Hong Kong Maxverse  
Interactive, Inc. Nevada Webgadgits, Inc. Delaware Kenmax Limited Hong Kong All  
subsidiaries conduct business under their respective corporate names.



CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated February 11, 2002, except note 21 for which the date is March 11, 2002, on the consolidated financial statements of JAKKS Pacific Inc. in this Form 10-K into the previously filed Registration Statements of JAKKS Pacific, Inc. on Form S-3 (File Nos. 333-48865, 333-62190 and 333-83568) and Form S-8 (Nos. 333-68313, 333-52205, 333-90055, 333-40392 and 333-65324).

/s/ PANNELL KERR FORSTER

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Pannell Kerr Forster  
Certified Public Accountants  
A Professional Corporation

Los Angeles, California  
April 1, 2002